FINANCIAL TIMES

World Business Newspaper http://www.FT.com

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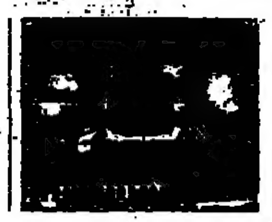

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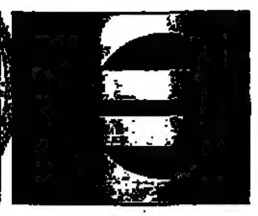

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WORLD NEWS

BNP to safeguard the jobs of 30,000 Crédit Lyonnais staff

Banque Nationale de Paris plans to guarantee the jobs of Crédit Lyonnais' 30,000 employees in exchange for a leading role in the privatisation of the French state-owned bank. **Page 12; Martin Wolf, Page 10; CCF shares surge, Page 14**

EU accused over legal aid plan
Supporters of a plan to set up an independent legal aid centre for poor countries involved in trade disputes have accused the European Commission of trying to sabotage it. **Page 12**

US lawyers attack Holocaust fund
The chances of German companies avoiding class action suits in the US over Holocaust-era assets appeared to diminish sharply when US lawyers attacked a compensation fund set up by the German government. **Europe, Page 3**

Envoy flies to meet Milosevic
US envoy Chris Hill broke off from Kosovo peace talks in France to fly to Belgrade to meet Yugoslav president Slobodan Milosevic in an attempt to reach an agreement on the Serbian province. **Europe, Page 2**

Bomb attack on Uzbekistan capital
Several bomb blasts ripped through Uzbekistan's capital of Tashkent in what Uzbek officials say was an attempt on the life of Islam Karimov, president.

Blow for N-test treaty hopes
Hopes that Pakistan will move quickly to sign the Comprehensive Test Ban Treaty on nuclear weapons have been dealt a blow by a demand that Washington first remove curbs on conventional military equipment supply. **Asia-Pacific, Page 4**

Coal miners head for Bucharest
An estimated 4,000 Romanian coal miners set off for Bucharest after Miron Cozma, their leader, was sentenced to 18 years in prison for undermining the state's authority. **Europe, Page 3**

Party pulls out of India's coalition
India's coalition government saw its small parliamentary majority whittled further as a four-member regional party withdrew its support. **Asia-Pacific, Page 4**

ECB damps rate cut speculation
The European Central Bank said European interest rates already reflected the recent economic slowdown in the euro-zone, damping market speculation of an immediate interest rate cut. **Europe, Page 3**

Jordan to finalise reform plans
Jordan is about to finalise an agreement with the International Monetary Fund on a structural reform programme.

SPD names presidential candidate
Germany's governing Social Democratic party (SPD) nominated Johannes Rau, former premier of the state of North Rhine-Westphalia, as its candidate for the presidential election in May. **Europe, Page 2**

Ethiopia and Eritrea trade fire
Ethiopia and Eritrea traded artillery fire along their contested frontier and Ethiopian aircraft dropped bombs on a water reservoir close to Eritrea's Red Sea port of Assab.

BUSINESS NEWS

Sponsored telephony leader considers stock market listing

GratisTel International, Swedish company behind Europe's first advertising-sponsored mobile telephone service, is planning to seek a stock market listing following expansion in the UK, France and Denmark. **Companies and markets, Page 13**

Wal-Mart Stores, the world's largest retailer, extended its market-beating share price rally after stronger than expected fourth quarter results. **Companies and markets, Page 13; Lex, Page 12**

Honda Motor is to become the first Japanese carmaker to establish a Chinese dealership network for locally assembled cars. **Asia-Pacific companies, Page 16**

Crédit Commercial de France saw shares rise sharply on speculation that the bank might become the first French target of a hostile, possibly cross-border, takeover. **European companies, Page 14**

Volvo, Swedish automotive group, is to cut another 650 jobs at its truck unit in Sweden due to more efficient production and an expected drop in European demand. **European companies, Page 14**

US online brokerages continue to expand despite cautionary noises from regulators and growing consumer frustration. **Companies and markets, Page 13**

MasterCard International, global payment card association, has decided on a sweeping management reorganisation to make it more competitive. **US companies, Page 17**

Fujitsu, Japanese software and information technology services group, is considering an IPO of two of its US businesses, DMR Consulting and Amdahl. **Companies and markets, Page 13; Schools to get free net, Page 7; Stocks' valuation, Page 17**

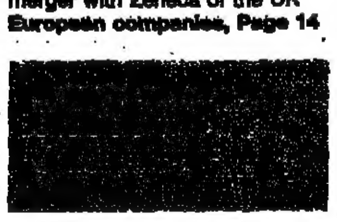
Compaq Computers' chief executive, Eckhard Pfeiffer, said usual valuation models should not be applied to internet start-ups. **US companies, Page 17**

XL Capital, Bermuda-based insurer, has agreed to buy NAC Re, US reinsurer, in a stock deal valued at more than $1bn. **US companies, Page 17**

A slowdown in the delivery of new ships will help the hard-pressed container shipping sector over the next two years, says a survey. **World trade, Page 4**

London International Financial Futures and Options Exchange is expected today to give the market the chance to bury its contract based on Libor and convert remaining positions into Euribor. **European companies, Page 14**

Astra, Swedish pharmaceutical group, played down regulatory delays in its planned $35bn merger with Zeneca of the UK. **European companies, Page 14**



Brussels raids EU banks

Inspectors act decisively on suspected collusion over euro transaction charges

By Emma Tucker in Brussels and George Graham in London

European Commission inspectors yesterday raided eight leading European banks suspected of colluding to fix charges relating to transactions in the euro, the new single European currency.

The surprise swoops were the culmination of an investigation by the Commission, the 15-nation EU executive, into allegations that banks were swindling consumers by not passing on the savings generated by the elimination of exchange rate risks.

"Since January there have been indications that banks have been discussing the charges to apply to euro transactions," said Karel Van Miert, the competition commissioner yesterday. "We believe there may be an understanding between the banks not to compete. We will see what our fishing today reveals."

The searches took place at Deutsche Bank and Dresdner Bank in Germany, Société Générale and Crédit Agricole in France, Banca Commerciale Italiana and Cariplo in Italy and Banco Bilbao and Argentaria in Spain. Mr Van Miert said other banks in other member states were also suspected but the Commission did not have the resources for more raids.

Since the euro was launched on January 1 anxiety has been growing in Brussels about the slack take-up by consumers and businesses. The Commission is particularly worried that by keeping charges for exchanging euro currencies high, the banks have robbed it of the single currency's most touted selling point – that it would reduce costs for travellers and enterprises doing cross-border business.

Société Générale said yesterday: "We consider that it is an honour to the extent that the inquiry covers the most important European banks. Let them look and we will see what the outcome is."

It added that there was a campaign by Brussels to blame banks for the slow adoption of the euro and pointed out that of its 5m customers, only 50,000 had asked for euro cheque books.

Argentaria said it had complied with all EU, Spanish government and Spanish central bank norms in applying its euro charges.

Mr Van Miert announced the raids during a hearing on bank charges at the European parliament. Christa Randzio-Plath, chair of the parliament's monetary affairs sub committee, said 40 recent German visitors to Strasbourg found they had to pay 15 different charges when changing German D-Marks to French francs.

But Nikolaus Bömcke, secretary-general of the European Banking Federation, said exchange rate risk was only one part of the costs associated with changing currencies.

Editorial Comment, Page 11

Kurds occupy embassies in arrest protest

By Our International Staff

Kurdish activists staged violent protests in more than 20 European cities yesterday after the capture by Turkey of Abdullah Ocalan, leader of a militant independence movement in the country.

His arrest followed a four-month search for political asylum in Europe, Africa and the Middle East after he was expelled from the Syrian base of his guerrilla group, the PKK.

He was held in Turkey at 3am yesterday after an undercover operation in Nairobi, the Kenyan capital, where he had hidden in the Greek ambassador's residence for the past 12 days.

After reports of his arrest, followers seized embassies and consulates belonging to Greece and Kenya, whose governments were blamed for his deportation and subsequent capture.

Three demonstrators set themselves on fire and others threatened suicide before being forcibly evicted by police. Several police and demonstrators were injured in clashes in at least 10 cities in Germany.

Three hostages were released last night after police stormed the Greek consulate in Leipzig, which had been occupied by 50 protesters.

In London, a Kurdish woman set herself alight as about 100 demonstrators occupied the Greek embassy threatening to burn themselves to death. The occupation was continuing last night.

Bülent Ecevit, Turkish prime minister, announced Ocalan's capture at an emotional press conference, saying: "We vowed we would get him wherever he was in the world. We have carried out our promise."

He said Mr Ocalan would now be put on trial, which means he will face charges of terrorism, treason and separatism before a state security court, where civilian rules do not apply.

The circumstances of his deportation from Kenya were unclear last night, with the Kenyan and Greek governments contradicting each other's versions of the story.

Germany and Italy urged Turkey not to execute the Kurdish leader, although he faces a possible death penalty.

No place to run, Page 2
Editorial Comment, Page 11

Kurdish demonstrators wave flags from the balcony of the Greek ambassador's residence in The Hague, they were protesting at Greece's role in the arrest by Turkey of rebel leader Abdullah Ocalan. Picture: AP

Japan tries U-turn to reduce long-term bond rates

By Gillian Tett and Naoko Nakamae in Tokyo and Gerard Baker in Washington

The Japanese government yesterday launched a new strategy for reviving its economy with an effort to drive down long-term interest rates in the bond market and a signal that it would accept a lower yen as a result.

In a sudden reversal of a policy decision made just two months ago, the ministry of finance announced that its Trust Fund Bureau, which manages the country's vast pool of postal savings, was resuming purchases of government bonds.

The U-turn – which comes ahead of this weekend's meeting in Bonn of finance ministers and central bank governors of the Group of Seven industrialised nations – immediately sparked a surge in bond prices and a sharp drop in long-term interest rates.

Eisuke Sakakibara, vice-minister of finance, signalled the government would not resist the decline in the yen's value lower interest rates are expected to produce. "It is natural for the yen to depreciate on monetary easing. We welcome this," he said.

Last Friday, the Bank of Japan pared its overnight market rate from 0.25 per cent to 0.15 per cent, and yesterday Mr Sakakibara said a fall in the value of the Japanese currency was an inevitable consequence.

The US has been urging Japan to take more aggressive measures to stimulate its economy and some international monetary officials believe Robert Rubin, the Treasury secretary, may signal the US will go along with some weakening of the yen as a result.

The US administration has to tread carefully, however, in the face of mounting domestic concern at the damage to US exporters from a strengthening dollar.

The yield on the benchmark 10-year JGB closed at 1.99 per cent, down from 2.14 per cent the previous day.

Only two months ago, the ministry of finance startled the markets by announcing that the Trust Fund Bureau would stop buying bonds because it faced a potential funding squeeze.

Lurch to a new crisis, Page 4
Capital markets, Page 20

Electrolux aims to streamline products

By Tim Burt in Stockholm

Electrolux, the world's largest household appliances group, is developing a series of common global "platforms" for its products, including refrigerators, vacuum cleaners and freezers.

The move follows the shift by manufacturers in the automotive and mobile telephone industries to single platforms, which enable several products to be built on a common basic framework.

The Swedish group said the plan formed the latest step in a two-year shake up that has involved some 12,000 job losses and the closure of 25 plants.

The first product to emerge from the new platforms will be a euro-oven. Then the group plans to focus on cold storage.

"In the refrigerator and freezer product area the number of basic models will be reduced by about 80 per cent," said Michael Treschow, chief executive.

The Electrolux plan follows an unsuccessful attempt last year by US rival Whirlpool to produce a single "world washer", which industry analysts said failed to take account of differing national tastes in Europe.

Electrolux, anxious not to repeat the mistake, has promised to take account of local market preferences. "We can cut costs by producing one basic oven for Europe, while adding particular gadgets in certain markets," said one senior executive yesterday.

That means in Italy the euro-oven will have a special pizza setting, while French buyers will have special fish and shell fish sections in their refrigerators.

In addition to common platforms, the group said it was considering a fundamental overhaul of its global branding. At present, Electrolux markets appliances under some 40 brands including Zanussi and AEG in Europe, and Frigidaire, White Westinghouse and Kelvinator in the US.

Mr Treschow said the group would focus on a smaller number of large and well-defined brand names, and outlined plans to include a common logo or the Electrolux name on all products. Other brands in the portfolio include Flymo lawnmowers and Husqvarna chain saws.

The company, however, emphasised that it had no plans for further disposals following its withdrawal in recent years from areas such as sewing machines, kitchen cabinets and aluminium products.

Electrolux lifted, Page 14

WORLD MARKETS

STOCK MARKET INDICES			**GOLD**		
New York: Lunchtime			**New York: Comex**		
Dow Jones Ind Av	9334.37	(+59.48)		$285.9	(290.5)
NASDAQ Composite	2306.85	(+8.95)	**London:**		
Europe and Far East				$286.25	(288.5)
CAC40	4062.82	(-12.87)	**DOLLAR**		
DAX	4904.58	(+65.13)	**New York: Lunchtime**		
FTSE 100	6108.8	(+65.4)	£	1.6315	
FTSE Eurotop 300	120	(+8.57)	€	0.8902	
Nikkei	14282.54	(+177.88)	SFr	1.42965	
US Lunchtime RATES			Y	118.305	
Federal Funds	5%		**London:**		
3-mth Treas Bills: Yld	4.55%		£	1.6335	(1.6285)
Long Bond	97½		€	0.8948	(0.8890)
Yield	5.4%		SFr	1.4301	(1.4219)
OTHER RATES			Y	118.175	(115.525)
UK 3-mo Interbank	5⅞%	(5⁷⁄₁₆%)	**Tokyo Close**		Y 118.85
UK 10 yr Gilt	134.84	(134.88)	**EURO (London)**		
Euro Euribor	3.092%	(3.095%)	$	1.118	(1.1237)
Germany 10 yr Bond	108.15	(108.54)	£	0.6844	(0.69)
Japan 10 yr JGB	98.455	(97.54)	Y	132.12	(129.81)
NORTH SEA OIL (Argus)			SFr	1.6060	(1.5977)
Brent Dated	$9.98	(10.295)			

Euro-zone target price €2.15. Prices in local currency as shown

Austria	Sch31.000	Ireland	IR£0.85	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.50	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	[illegible]	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R15
Estonia	[illegible]	Lebanon	L£21.00	Spain	Pta325(€1.95)
Finland	FMk13.00(€2.19)	Lithuania	Lit3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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REBEL LEADER'S CAPTURE ANKARA REASSURES IRAQI KURDS OF ITS ROLE IN HELPING PROTECT THEM FROM SADDAM HUSSEIN

In the end, Ocalan had no place to run

By Harvey Morris

Even as Turkey was springing the trap on Abdullah Ocalan, the Kurdish rebel leader, this week, it was also reassuring the Kurds of neighbouring Iraq of its continuing role in helping to protect them from the regime of Saddam Hussein.

It was a recognition that, in a region that lives by the *maxim "my enemy's enemy* is my friend", Turkey and the Kurds of northern Iraq are prepared to help each other when it comes to Mr Ocalan.

The reassurance came on Monday in the form of Ankara's rejection of an Iraqi appeal to prevent the US and Britain using the US airbase at Incirlik in Turkey for attacks on targets in Iraq's northern no-fly zone.

A halt to such flights out of Incirlik would seriously disrupt the ability of the western allies to dominate the skies over Iraqi Kurdistan and might even tempt Saddam Hussein, the Iraqi president, to risk reasserting his control over the *de facto* autonomous north.

The rebuff to Baghdad reflected Ankara's acknowledgement of the role being played by the Iraqi Kurds over recent months in denying a safe haven to the Turkish Kurd guerrillas of Mr Ocalan's Kurdish Workers party (PKK).

This co-operation stems *from a peace accord*, sponsored by the US and signed in Washington last September, between two previously warring Iraqi Kurdish parties – Masoud Barzani's Kurdistan Democratic party (KDP) and the Patriotic Union of Kurdistan (PUK), led by Jalal Talebani.

As part of the accord, the two parties pledged to drive the remnants of the PKK from areas under their control. According to Iraqi Kurds, the last remaining PKK bases and political offices that had survived in PUK-controlled territory have since been closed.

A PKK presence that may once have included as many as 4,000 armed guerrillas has been reduced to at most a few hundred, constantly on the move near the Iran-Iraq-Turkey border zone.

Although they had granted safe havens to the PKK in the past – and continue to give refuge to civilian Kurds from Turkey – the Iraqi Kurds became concerned that Mr Ocalan was using his calls for pan-Kurdish independent statehood to win converts in Iraqi Kurdistan.

> **The Iraqi Kurds are keenly aware that the border with Turkey is their main lifeline to the outside world**

The policy of the Iraqi Kurdish parties is to limit their demands to autonomy for Kurds within the borders of their home states of Turkey, Iraq and Syria. Latif Rashid, London spokesman of the Iraqi PUK, said yesterday that Kurds were ready for a political solution "within the borders of those countries".

The Iraqi Kurds are keenly aware that the border with Turkey is their main *lifeline* to the outside world, as well as a source of revenue from unofficial customs dues on goods that flood into northern Iraq, many of them destined for the contraband market in Iran.

It is also the conduit for a lucrative trade in Iraqi diesel fuel illicitly shipped in the opposite direction in violation of UN sanctions. Revenues from this two-way traffic have been unofficially valued at up to $2m a day. Hence the need to maintain good relations with Ankara.

The US accord was part of a process of squeezing Mr Ocalan's PKK that began with his expulsion from Syria last October after Turkey threatened military action if Damascus did not end its support for the PKK.

The PKK leader found himself with no place to run at a time when his movement's 14-year war against the Turkish central government was already faltering under the onslaught of heavy Turkish offensives, *often* accompanied by land incursions and air attacks on *alleged* PKK bases in Iraqi Kurdistan.

Iraqi Kurds said yesterday they hoped their clampdown on the PKK presence in northern Iraq, followed now by the capture of *Mr Ocalan*, would put an end to such "hot pursuit" raids from Turkey.

The PKK vowed yesterday to continue its armed struggle, but its room for military manoeuvre is now severely constrained.

Since his expulsion from Syria, Mr Ocalan has shown signs he was feeling the pressure. A number *of statements* recently issued in his name have referred to his support for a negotiated settlement of the Kurdish question.

Ironically a trial might *now grant him the platform* so far denied him by Ankara from which to expound *his* views on solving the Kurdish question.

Iraqi Kurdish officials were reluctant yesterday to welcome the capture of a fellow Kurd, even an enemy such as Mr Ocalan. But they expressed hope that his arrest might open the way for a peaceful settlement of *the Kurdish question* in Turkey, where Kurds constitute *up to a fifth of the 60m population.*

"Ocalan's *policies have* given a very negative image to the Kurdish issue," said Dilshad Miran, London representative of the KDP. "If this influence is eliminated, it may open a new page for a more civilised discussion than has so far existed."

Mysterious end to Kurdish leader's four-month odyssey

Kerin Hope, James Blitz and Mark Turner chart the *desperate search for asylum by Turkey's most wanted man*

The extraordinary four-month odyssey of Abdul*lah Ocalan, the Kurdish* leader wanted on charges of murder and terrorism in his homeland of Turkey, and in Germany, came to an end at 3am yesterday morning.

Exactly how Turkey's most wanted man was delivered into Ankara's hands remains, however, unclear.

According to the Greek government, *Mr Ocalan left* his shelter at the home of *the Greek ambassador* in Nairobi on Monday afternoon, in an attempt to seek asylum in Europe. He planned to fly to the Netherlands, but his car disappeared from view while being escorted to the airport. At this point Mr Ocalan was, said a Greek government spokesman, "the responsibility *of the Kenyan government.*"

The Kenyan government was yesterday hotly denying this version of events, accusing the Greek ambassador of lying.

Bonaya Godana, Kenya's foreign minister, said the Greek ambassador was asked to get Mr Ocalan out *of the country as soon as his* government realised the Kurdish leader was being *hidden at the Greek* embassy. Kenya, said Mr *Godana*, had "no role in the affair", while the Greeks "knew exactly where Mr Ocalan was being sent".

Whatever the truth, Mr Ocalan's arrival in Turkey ended a fruitless search for asylum which took him across the length and *breadth of Europe.*

Over the previous four *months, the leader of the* Marxist Kurdish Workers' party (PKK) had been expelled from Syria, failed to gain refuge in Russia, and found a temporary home in Italy, where his presence caused a dramatic deterioration in diplomatic relations with Turkey. He was then deported, and wandered for a *fortnight.*

The odyssey began when Ocalan was expelled from Syria, the base of his guerrilla warfare against Turkey, on October 19.

The next day it was confirmed he had arrived in Moscow. On November 5, the Russian government announced that it had *rejected his asylum request* despite an appeal from Russia's parliament.

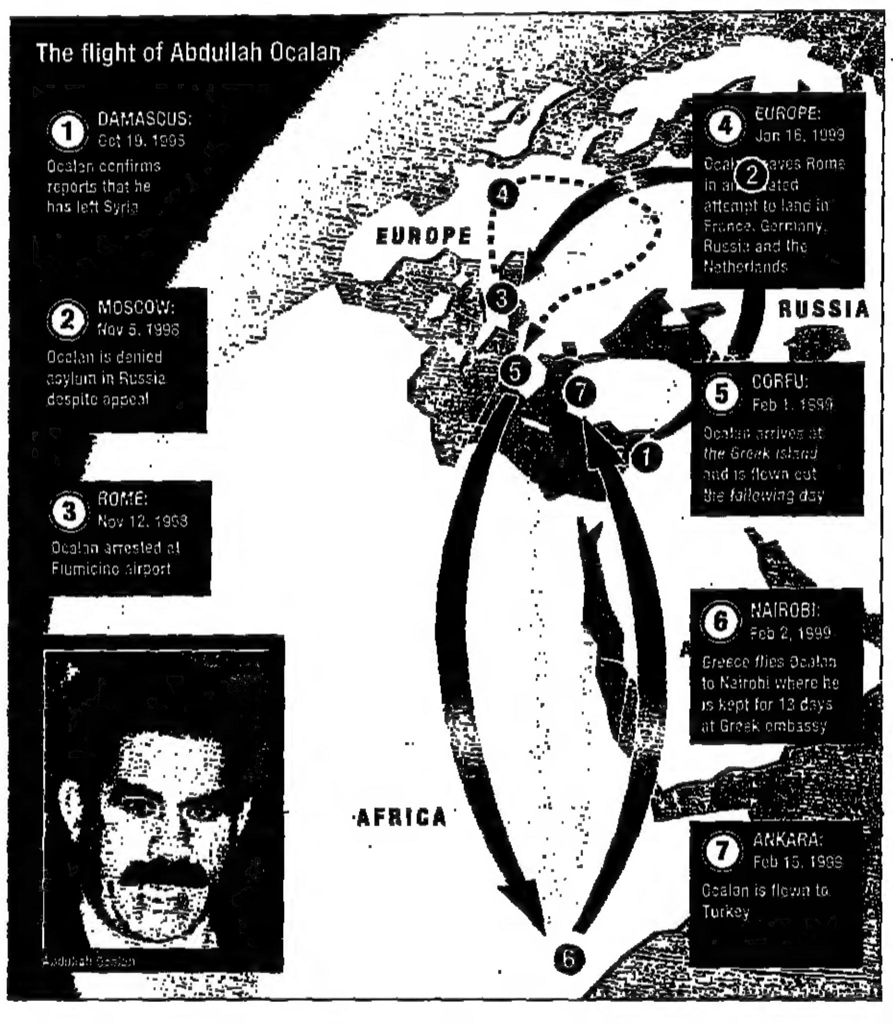
Western Europe became involved in the saga when he appeared at *Rome's Fiumicino* airport carrying a false passport and was promptly arrested.

Massimo D'Alema's Italian government was only days old at the moment of his arrival and quickly became divided over what action to take. *At the end of November*, Mr D'Alema flew to Bonn, *hoping to get the German* authorities, who had issued two arrest warrants for Ocalan on terrorism charges, to file for his extradition. But Gerhard Schröder, the German chancellor, refused.

Italy's attempts to bring the PKK leader to trial at an international court also *failed and on January 16 he* left his heavily armed bunker in the Rome suburbs, which had been stocked with food for a lengthy stay, and was flown to an unknown destination.

Over the next few weeks, Turkish and US security services had difficulty establishing his whereabouts. *There were reports that he* had tried, and failed, to return to Russia, then aiming for the Caucasus and Lebanon.

On February 1, *his location* again became known when an aircraft tried to land in the Netherlands and was refused permission. *Yesterday it became clear that* he had landed on the island of Corfu to refuel, and then flown to Nairobi. But even there, Mr Ocalan could find *no safe haven.*



Italy confounds sceptics over electricity

Electricity liberalisation

By David Lane in Rome

Italy looks set to meet the *February 19 deadline for* implementing the European *Union's electricity directive* and to confound sceptics who doubted the government's ability to respect the timetable.

Pierluigi Bersani, the industry minister, is expected to finalise a decree this week that will open up the country's electricity market, presently dominated by Enel, the state corporation.

In Italy, electricity deregulation is highly contentious and its organisation has kept politicians, interest groups and official bodies busy since Mr Bersani issued his decree in November.

A large part of the parliamentary debate over Mr Bersani's decree has concerned Enel's role. *The treasury-owned corporation – Europe's second-largest electricity company after Electricité de France –* generates almost three quarters of Italy's electricity production. It owns 80 per cent of the country's 70,000 MW of generating capacity. In addition, Enel has a monopoly on cross-border trading. Imports cover about 15 per cent of total Italian demand, which amounted to 280bn kWh last year.

Although Mr Bersani's decree would limit Enel to 50 per cent of the market, production plus imports, both Italy's competition authority and energy regulator consider this limit too generous. Even so, the state corporation will probably have to sell at least 15,000 MW of its power plant generating capacity in order to fall *below the 50 per cent ceiling.*

Enel owns and manages *Italy's transmission grid.* While the decree allows the corporation to *keep* ownership, this will eventually pass to a separate company. An independent body will be *established* for grid management to ensure that equal conditions of access will apply to all operators.

Enel's position in distribution, where it has around 90 per cent of the total, also seems set to change. Italy's municipal utilities – about 50 concerns serving some 2.5m users, which kept assets when electricity was nationalised and Enel established in 1962 – want to increase their small market shares.

"*Liberalisation will bring* benefits to consumers only if *the limits are lowered for eligible users*, who are able to buy electricity from whichever supplier they wish, and *if city distribution networks* are rationalised," says Giovanni Del Tin, chairman of Federelettrica, the municipals' association. The decree opens the way to rationalisation by allowing municipal utilities to buy Enel's networks – which in some areas duplicate those of the municipal utilities – at market prices.

This solution is acceptable to Enel. "It means that the corporation will not be giving away assets that belong to all Italians," says Franco Tato, Enel's managing director. *He considers* the best way to determine market value *is for Enel to spin off* into separate companies its distribution operations in cities where they are split with local utilities, and to float these companies on the stock market.

Mr Tato believes the stock market also provides the way for Enel to reduce its production capacity, although procedures will have to be agreed with the Treasury. "Floating three production companies, for example, each with 5,000 MW capacity, should ensure market prices and protect Enel's value," says Mr Tato.

Such ideas are almost revolutionary for Italy, where the monolithic Enel had seemed untouchable. But the decree is a compromise, *doing too little to satisfy liberals* who want sales and *distribution fully separated*, but too much for the *supporters of the status quo* among trade unionists and Reconstructed Communist politicians.

Enel's managing director *thinks the solution* being adopted for transmission *will allow for flotation of the* grid company.

If that happens, and if Enel floats distribution operations as well as production over the next two years, the liberalisation decree will also have advanced electricity privatisation in Italy.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigna, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254. Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Brussels remains stubborn on duty free

Inside the market

By Emma Tucker in Brussels

"It has always been acknowledged that duty free was eventually going to go: eight years is surely enough for the industry to adapt." So spoke Norman Lamont, the then British chancellor of the exchequer in 1991. At *the time neither he, nor any* other EU finance minister, would have believed that the unanimous decision they had just taken to scrap duty free sales would still be in question seven years and three months on.

Today, in spite of reversals by Germany, France and the UK, the debate should finally be laid to rest. The European Commission is expected to resist heavy political pressure in the name of the single market. It will rule out an extension of duty free sales beyond this summer's deadline, and *mount a robust defence of* their abolition.

Without a proposal from the Commission, the Council of Ministers will be unable to secure a prolongation.

For the Commission, the duty free saga has been a trial of strength and a test of its credibility.

It has been bombarded by *the member states* and the duty free lobby with strong arguments about job losses. At a time when the European Union has been battling to make itself more relevant to ordinary citizens, politicians saw that scrapping cheap alcohol and cigarettes was hardly going to help. But the duty free issue cuts to the heart of what the Commission is supposed to be all about. Its constitutional role is to act as the guardian of the single market, helping to iron out *competitive distortions* and generate more jobs in the long run.

If the member states were to have their way over a duty free extension, similar arguments could be used to justify grossly distortive state aid payments or the *blocking of goods* and services between states.

The decision also comes as the Commission attempts to guide an unambitious but significant package of tax harmonisation measures on to the EU statute book. A wobble now on duty free would surely send out the wrong signal.

None of which is to say that job losses will not result from scrapping duty free – they will, a fact acknowledged by a report to be issued by the Commission today.

This collates information *sent to it by the member* states, which last December called on Brussels to carry out a study on the impact of abolishing duty free sales on employment.

The figures range from the creation of 400 jobs in Denmark, to the loss of *22,000 jobs in Spain.* Ireland says more than 1,000 jobs will go, while the UK talks of some 5,000 job losses. France says that among others, 2,500 jobs would go in the Cognac region and the perfume industry will lose 1,100 jobs.

Faced with these estimates, the Commission has returned to its core beliefs. "As with the phasing out of any distorting subsidy, short-term negative effects on employment are expected to be more than *offset by long-term effects on* job creation," says the report.

The British government, among those calling for an extension of duty free, might have been expected to grasp this point.

After all, Tony Blair, UK *prime minister, likes to* lecture his European counterparts about the virtues of market forces.

Instead, it has been the Commission which has been charged with stubbornness and bloody mindedness. But with Europe's capitals *applying the pressure, those* may have just been the qualities that, in this particular argument, were most needed.

US envoy in fresh push for Kosovo accord

By Guy Dinmore in Belgrade

US envoy Chris Hill broke off from Kosovo peace talks in France to fly to Belgrade last *night to* meet Slobodan Milosevic, the Yugoslav president, in an attempt to reach an agreement on the future of the Serbian province before a Saturday deadline set by western mediators.

Diplomats said Mr Hill, the chief mediator at the peace negotiations that began in Rambouillet on February 6, would impress upon the Yugoslav leader the need to meet the deadline, following reports in Belgrade that Mr *Milosevic wanted* to drag out the negotiations and divide western *governments over* Nato threats to bomb Serbia.

The unexpected visit to Belgrade by Mr Hill, accompanied by British and French officials, was driven by recognition that the delegation to Rambouillet led by Milan Milutinovic, Serbian president, could decide nothing without the approval of Mr Milosevic.

Little progress was made *in the first week of talks*, with Mr Hill and mediators *from France and Russia* shuttling between the Serbian and Kosovo Albanian *delegations* in the chateau outside Paris.

A US-drafted peace plan put on the table by the six-nation Contact Group would give Kosovo and its ethnic Albanian majority substantial autonomy, but not independence, within federal Yugoslavia.

Serbia has so far rejected a key component of the plan, which provides for a Nato peacekeeping force of up to 28,000 troops that would ensure the withdrawal of most Yugoslav forces and disarm the separatist Kosovo Liberation Army as well as Serb paramilitaries.

Madeleine Albright, the US secretary of state, yester*day reiterated Nato's threat* to launch air strikes against *Serbia if it scuttled the* negotiations by refusing to accept a Nato peacekeeping force.

"No Nato force is a deal-breaker from our perspective. If there is no agreement then the Serbs need to know what we have said earlier – whatever side craters [destroys] the talks would be held responsible," Mrs *Albright* said in a television interview.

"*In the Serb case, that* means it would be followed by Nato bombings," she said.

NEWS DIGEST

GREENS AGREE TO BACK CANDIDATE

SPD nominates Rau for German presidency

Germany's governing Social Democratic party (SPD) said yesterday it had formally nominated Johannes Rau, previously premier of the state of North Rhine-Westphalia, as its candidate for the country's presidential election in May.

A vote for a *successor to Roman Herzog*, the *incumbent*, is to take place at the federal assembly in Berlin on *May 23.*

Mr Rau is expected to win the election, as the SPD's junior coalition partners, the Greens, have agreed to back him, giving the government a clear majority in the assembly.

Mr Rau, 68, was defeated by Mr Herzog for the largely ceremonial office in 1994. The presidency is for a five-year term.

The opposition Christian Democrats have nominated *Dagmar Schipansky, a 55-year-old university professor*, as their candidate. **Reuters, Bonn**

NORWEGIAN ECONOMY

OECD warns on wage inflation

The Organisation for Economic Co-operation and Development warned yesterday that Norway ran the risk of an *economic "hard landing" unless it controlled wage inflation.*

Until a pay settlement *last year, inflationary pressure in* the Norwegian economy had remained subdued due to *low imported inflation* and moderate wage growth, it said. However, hourly wages increased by 6 per cent last year, after an increase of up to 5 per cent in 1997.

The OECD said another high wage settlement or a new bout of financial market turbulence would probably lead to "considerable further policy tightening" and an "outright recession".

Provided such a situation does not arise, the OECD predicts a soft landing for the Norwegian economy. The *organisation expects mainland gross domestic product*, which excludes offshore oil activities, will rise only 1.0 per *cent and 1.5 per cent in 1999 and 2000 respectively*, after a 20 per cent rise in mainland GDP in the five years since 1993. **Valeria Sköld, Oslo**

FRENCH BLOOD SCANDAL

Call for judge's removal

Families of victims in France's blood scandal called yesterday for the removal of the judge overseeing the trial of three former ministers accused of delaying moves to screen blood products.

François Honnorat, a lawyer representing the Association of Blood Recipients, said a formal request for the removal of Christian Le Gunehec, the magistrate in the case, would be *filed to the Supreme Court. "He is preventing our taking* part in the hearings and we consider this an intolerable *demonstration of partiality," Mr Honnorat said.*

Mr Honnorat spoke after Mr Le Gunehec rejected appli*cations from more than a dozen lawyers to allow a greater* number of victims to testify. The magistrate based his refusal on *legal grounds*, which allow him to set the number of people who can take part in the trial.

Victims' groups estimate 3,600 people, including hospital patients and haemophiliacs, were infected and more than 1,000 died from Aids contracted from tainted blood.

Laurent Fabius, a former prime minister, is accused of blocking the introduction of a US test to screen blood *donors for Aids until a rival French test came on the market.* He denies the charges.

Also on *trial* are Edmond Hervé, a former junior health minister, and his boss Georgina Dufoix, a former minister for social affairs and health, who also say they were unaware at the time of the debate over when to begin screening blood. **Reuters, Paris**

RUSSIAN CRIME

Police crack down on gang

A regional legislator in St. Petersburg was arrested yesterday on suspicion of plotting the deaths of three men who were prominent in business and *public affairs.*

Yuri Shutov, who once ran for governor of St. Peters*burg, was among 12 people arrested in a crackdown on* a gang that police said was responsible for the three killings, *according to Itar-Tass.*

Authorities said they also seized a large cache of guns, ammunition and bomb-making equipment. **AP, Moscow**

CLASS-ACTION SUITS CHANCES OF GERMAN COMPANIES AVOIDING ACTION IN AMERICA DIMINISH

US lawyers attack Holocaust-era fund

By Frederick Stüdemann in Berlin and John Authers in New York

The chances of German companies avoiding class action suits in the US over Holocaust-era assets appeared to diminish sharply yesterday when US lawyers attacked a compensation fund set up by the German government.

Gerhard Schröder, the German chancellor, yesterday agreed with representatives from banking and industry to set up a fund to compensate victims of Nazi aggression – particularly those who suffered forced labour and expropriation of assets. A second fund will promote awareness of Nazi terror.

Mr Schröder said the purpose of the fund was not just to redress the injustices of the past but "to counter lawsuits and especially class-action lawsuits".

Melvyn Weiss, the New York lawyer who has led the class-action lawsuits over the issue, was "stunned" by the announcement and drew parallels with the acrimonious discussions with Swiss banks. "As far as I'm concerned this is just another Swiss-type attempt to get out of this for less money than they should pay," he said.

However, Mr Schröder's move was welcomed by the New York-based World Jewish Congress, which has led the campaign over European financial institutions and Holocaust assets. It welcomed the fund as a "historic step", saying it was a "well-anchored basis for resolving outstanding Holocaust-era claims".

Mr Schröder said the fund, which would be financed by contributions from companies, was intended to allow German companies "to go about their business unhindered by such [legal] campaigns" and provide "a degree of legal security".

The chancellor said Bonn had "high hopes" that a satisfactory result would be achieved.

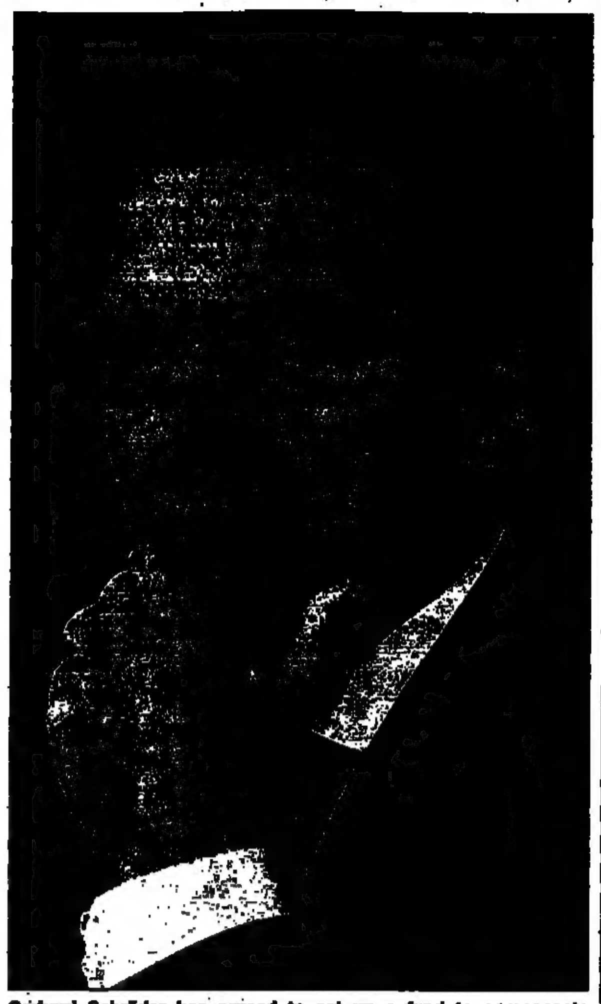
But Mr Weiss said: "These two governments had 50 years to find a remedy for these people and they never did until litigation was started. Who can trust this process?"

He said the World Jewish Congress was "playing into the hands of the people we are trying to hold accountable", and predicted that any government agreement might fall victim to political opposition in the US.

Mr Schröder, who was accompanied by Rolf Breuer, chairman of Deutsche Bank, and Gerhard Cromme, chairman of Krupp, did not give any details on the amount of money that would be paid into the fund or how it would be disbursed. Both sides hope to start payments as soon as possible, possibly by September 1. Mr Cromme said: "It cannot be that one makes the decision to pay and then is sued."

Thirteen companies – Allianz, BASF, Bayer, BMW, DaimlerChrysler, Deutsche Bank, Dresdner Bank, Degussa-Hüls, Krupp, Hoesch-Krupp, Hoechst, Siemens and Volkswagen – put their names to yesterday's statement.

Swiss shadows, Page 10



Gerhard Schröder has agreed to set up a fund to compensate victims of Nazi aggression AP

Brussels warns Germany, France on budget plans

By Peter Norman in Brussels

The European Commission yesterday rebuked Germany and France for doing the minimum necessary to meet the tough budgetary conditions of the stability and growth pact that underpins Europe's single currency.

Passing judgment on the stability programmes of the two biggest economies in the euro-zone, the EU's executive arm said the public finance plans of both countries allowed no safety margin for unforeseen developments.

The Commission's opinions were little more than a tap on the wrist for Bonn and Paris and are unlikely to prevent EU economics and finance ministers giving qualified approval to the two programmes at their next "Ecofin" meeting on March 15.

But its verdicts on the French and German plans contrasted with more favourable judgments about the Belgian and Spanish stability programmes, which Yves-Thibault de Silguy, the commissioner for economic and monetary affairs, yesterday described as "good".

Mr de Silguy warned that the German plan to reduce the general government budget deficit from 2 per cent of gross domestic product this year to 1 per cent of GDP in 2002 involved no significant fall in the deficit ratio before 2001.

The Commission complained that Germany's ratio of government debt to GDP was expected to stay unchanged at 61 per cent of GDP until 2001 and only fall below the Maastricht Treaty benchmark of 60 per cent to 59.5 per cent in 2002. Warning that its plans made no allowance for the "budgetary burden of future demographic developments", it urged Bonn to bring the deficit below 1 per cent of GDP in 2002 if growth was stronger than expected.

The Commission concluded that France's medium-term budget targets were in line with the stability pact. But it criticised a lack of ambition, complaining that the deficit targets of between 0.8 per cent and 1.2 per cent of GDP in 2002 offered "no safety margin for the consequences of weaker than expected growth, budgetary pressures of an ageing population, costs of any new policies and the uncertain impact of existing major structural reforms".

However, with only Luxembourg still to produce its stability pact programme, Mr de Silguy was in no mood to spread gloom yesterday when evaluating the member states' budget plans. He pointed out that all 14 programmes assessed to date conformed with the stability pact, even though some of the underlying economic assumptions were "fragile".

Moreover, he was hopeful that robust domestic demand would ensure that the current slowdown in the European economy was neither deep nor long-lived. Looking ahead to the next Commission growth forecasts at the end of March, he said: "I'm tempted to say that I won't be rounding down the figures as much as I thought a few weeks ago."

The commissioner said the Spanish stability programme was "good, ambitious and credible" although additional reforms would be needed. The Belgian programme, which commits the government to maintaining a primary budget surplus of at least 6 per cent a year, was "prudent and realistic", he said.

ECB damps hopes for cut in interest rate

By Wolfgang Münchau in Frankfurt

The European Central Bank yesterday said European interest rates already reflected the recent economic slowdown in the euro-zone in statements that damped market speculation of an interest rate cut in the immediate future.

In its monthly report for February, its second since the launch of European economic and monetary union this year, the ECB said the slowdown in growth and inflation had been anticipated by a rate cut in December, when 10 national central banks reduced their benchmark short-term rate from 3.3 to 3 per cent.

Last week Oskar Lafontaine, German finance minister, called on the ECB to cut interest rates. As chairman of the Ecofin council of European finance ministers, Mr Lafontaine will be a guest at an ECB governing council meeting scheduled for tomorrow. No changes in interest rates are expected.

The ECB also hinted in its report that it was likely to take greater account of money supply figures than widely expected. It said it had conducted extensive econometric analysis showing that the demand for broad money, such as M3, which includes money in bank accounts as well as cash in circulation, had proved sufficiently stable in the euro-zone over the past 20 years.

Perceptions that money demand may not be stable – and thus may be difficult to base policy on – helped convince the ECB that it should not follow the policy of the Bundesbank in setting an explicit target range for the growth of the money supply.

The ECB has chosen instead a more flexible approach in which monetary aggregates will still play a prominent role but have to co-exist with other economic indicators.

But the data published by the bank yesterday showed that the fall in euro-zone inflation rates in the 1990s was foreshadowed by a decline in money growth.

"Monetary developments can reveal useful information about the future price developments and thereby offer an important compass for the conduct of monetary policy," the ECB said.

If the ECB has begun to give more importance to monetary targets, the chances of an interest cut in the immediate future may be receding. Over the period from October to December 1998, average annual growth in M3, a measure of broad money, was 4.7 per cent, just above the ECB's reference value of 4.5 per cent.

If the ECB wanted to cut interest rates, it would have to explain such a decision by factors other than current monetary developments.

Coal miners set off for Bucharest

By Joe Cook in Bucharest

An estimated 4,000 Romanian coal miners yesterday set off for Bucharest after Miron Cozma, their leader, was sentenced to 18 years in prison on Monday for undermining the state's authority. The charge stemmed from his role in previous miners' riots.

The miners yesterday rallied in the town of Petrosan in the Jiu Valley coal region, 370km north-west of Bucharest. By early evening they had reached the nearby town of Tirgu Jiu. Their leaders claimed that the action was unrelated to Mr Cozma's sentencing, saying it was a protest at what they see as the government's failure to honour a January agreement over planned pit closures.

Last month, 10,000 miners advanced on the capital. The march was abandoned only after the government deployed tanks and troops, and Radu Vasile, the prime minister, held talks with Mr Cozma.

Although full details of the talks have yet to emerge, it is understood that Mr Cozma was told that if he and the unions could find ways of saving the coal industry $200m without closing pits, the government would consider them.

The government plans to close 140 loss-making coal and other mines to staunch state sector losses.

Yesterday's unrest came as parliament approved the adoption of the 1999 state budget, thereby paving the way for the government to open negotiations with the International Monetary Fund on a new loan accord.

An agreement with the IMF is vital to Romania's efforts to avoid default on the $2.9bn of foreign debt service payments due this year.

The budget is based on a deficit equal to 2 per cent of gross domestic product, down from an estimated 4 per cent of GDP in 1998, and envisages a year-end inflation rate of 25 per cent against last year's 40 per cent.

In a recent report on Romania, Nomura, the Japanese broker, said the budget deficit target was "rather on the optimistic side".

It argued that "while pressure on the budget would be greatly relieved by the closure of loss-making enterprises, the ensuing loss of revenue and rise in unemployment combined, would mean the net budget outcome is likely to be more in the red than the budget envisages".

Pakistan demands arms deal before signing N-test ban

By Peter Montagnon and Farhan Bokhari in Islamabad

Hopes that Pakistan will move quickly to sign the Comprehensive Test Ban Treaty have been dealt a blow by a new demand that Washington first remove curbs on conventional military equipment supply.

In an apparent hardening of position, the government of Nawaz Sharif has told Washington it wants an end to restrictions under the long-standing Pressler amendment, passed by Congress, curbing US arms sales to Pakistan because of its efforts to develop nuclear weapons.

Along with India, Pakistan has been under pressure to sign the CTBT since both countries tested nuclear devices last May, but Sartaj Aziz, foreign minister, said it would not sign under coercion. Removal of military sanctions as well as economic ones was a critical factor, he added.

Unlike India, Pakistan had been dependent on the US for arms purchases, so the Pressler sanctions, directed specifically against Pakistan, were unfair and unjustified, he said. Moreover, US legislation now provides for general sanctions against countries that seek to develop nuclear capacity. "Pressler needs to be repealed because it is no longer necessary."

"The imbalance in conventional weapons between India and Pakistan has increased," he continued. Pakistan was short of spares for its US-built equipment and had to buy them expensively from third parties despite budget pressures.

If Pakistan sticks with its new position, it risks creating an impasse that would prevent progress on resolving its nuclear differences with the US. The Clinton administration recently agreed to return $325m paid by Pakistan for the purchase of F-16 fighter aircraft blocked under Pressler. But, it could not convince Congress to permit a waiver of *arms sales restrictions* unless Pakistan first signed and ratified the CTBT.

Pakistan's *stand has* confused experts in Islamabad who had been hoping it would sign the *CTBT this* summer, and some are not sure whether it will stick to its tough line once it becomes apparent that Washington cannot respond. Pakistan would almost certainly come under heavy pressure to sign the CTBT if India did so first.

But Mr Aziz made it clear in an interview that even the September deadline set earlier by Pakistan for signing the treaty could be missed without further US concessions. "Between *now* and September, something has to happen *on both sides*."

Mr Aziz also cautioned against excessive expectations for this weekend's summit between Mr Sharif and India's prime minister, Atal Behari Vajpayee. There was a willingness to discuss hurdles to improved relations, but Pakistan could not normalise ties until the Kashmir issue is resolved.

Indonesia near financing $9bn budget deficit

By Sander Thoenes in Jakarta

Indonesia yesterday seemed close to securing sufficient foreign lending to finance a $9bn budget deficit for the coming year, easing concern it would be forced to print money.

Bambang Subianto, finance minister, said the government needed to secure only $1.9bn more, following recent commitments worth $2.4bn from Japan and $1bn each from the World Bank and the Asian Development Bank.

Ginandjar Kartasasmita, co-ordinating minister for economics, finance and industry, said he had asked the International Monetary Fund to contribute $1bn, in addition to the $11.3bn pledged earlier and largely spent this year.

The rest is due to come in funding for specific projects such as poverty alleviation schemes, already agreed with the World Bank and other donors. Many such projects have been slow to get started but are listed both as revenues and as expenditures, which means that any delays would not affect the budget deficit.

Indonesia has relied on foreign funding to plug holes in its budget deficit, enabling it to slow the sharp rise in inflation late last year and bolstering the rupiah.

Economists had worried that extra funding would be hard to come by, but the recent pledges leave Indonesia reasonably assured of full funding when a club of donor countries meets in June.

Club members last year offered debt rescheduling as well, but the finance minister said the remainder of Indonesia's sovereign debt, much of it owed to the World Bank and Japan, could not be rescheduled.

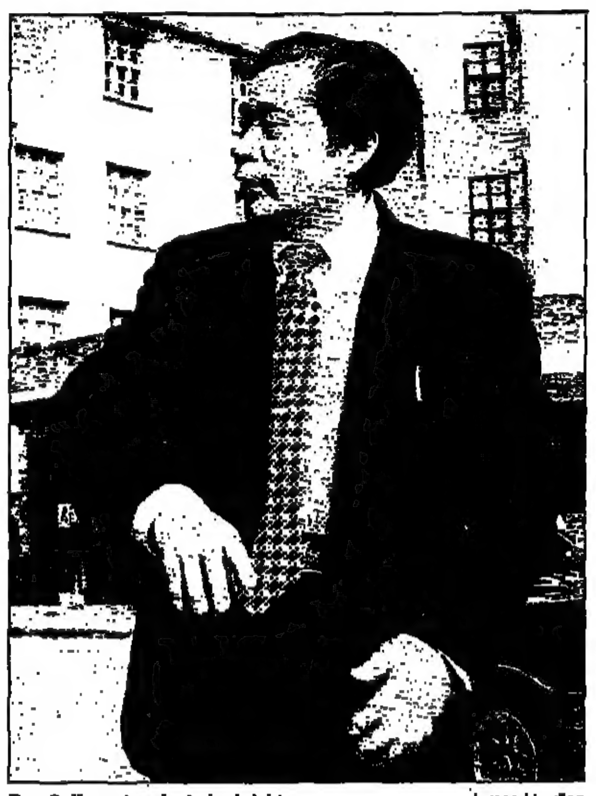
Sovereign debt stood at $57bn at the start of this year. The minister said it would rise to $59bn by the end of the current fiscal year on March 31.

"The withdrawal of foreign loans as of December 31 1998 was $79.5bn, but principal worth $22.5bn and interest have been paid," he told a parliamentary hearing. That means Indonesia paid nearly twice as much to its donors as it received last year, despite the recession.

Some loan pledges failed to materialise, but because social spending is down, economists do not expect a shortfall in deficit funding. The coming year may prove more challenging, as Indonesia gears up for a bank bail-out.

Rao Caifu – the perfect model of a modern Chinese banker

James Harding reports from Longyan on a small-town banker held up to the nation as an example of prudence and honesty



Rao Caifu: not a single bad debt — James Harding

Rao Caifu is China's best banker. Not that you would know it from his salary, which is less than $100 a month. Nor from his status, as the manager of a one-room outlet tucked away in the countryside.

But, in a banking system saddled with one of the highest ratios of non-performing loans in the world, Mr Rao has earned his distinction. In the last 18 years, he has approved Rmb230m ($28m) worth of loans and does not have a single bad debt to show. "In every case, the capital and interest has been fully repaid," says Mr Rao.

This pristine portfolio has earned Mr Rao a modest celebrity as the Communist party's first and only "national model of the financial system". Wen Jiabao, the vice premier responsible for financial sector reform, has instructed the other 2.8m bankers in China to "learn from Rao Caifu".

Mr Rao's record is indeed exceptional. But, he is an exception that proves a more disturbing general rule in a banking industry with more than $200bn worth of problem loans: China has yet to come to grips with the culture of modern commercial banking.

Mr Rao, who urges visitors to his modest office to try the sweet mandarin oranges he grows himself, graduated from primary school and started out farming rice *before turning* his hand to finance as the village accountant in the early 1980s. Today, he manages the Agricultural Bank of China's Hongfang township *business department of* seven staff – it is not big enough to rank as a sub-*branch – offering services to* 27,000 people, mostly farmers, in a backwater of eastern *China's Fujian province*.

The choice of an honest and prudent official as China's model banker says much about Beijing's continuing preoccupation with corruption. *And*, China's new generation of bankers may dismiss the trustworthy clerk's model status as an expression of the party's nostalgia for upright citizenship *in the* countryside.

But, to judge Mr Rao as just a peasant-banker is to *ignore some of the lessons* his experience offers about the problems in China's banks – even if they are not the lessons Beijing intended to teach.

Since joining Agricultural Bank of China, one of the "big four" state-owned commercial banks that account for more than 80 per cent of lending in China, Mr Rao has issued 3,000 loans and recovered the money on all of them.

So, who have been these remarkably reliable borrowers? *"Most of the enterprises* here are collectives, townships and village enterprises (TVE) *or privately-owned* enterprises. There are no state-owned enterprises," he says. *"To date, the most reliable payers are the TVEs."*

This is richly ironic. *China's model banker has kept* a clean slate by not lending to state industry, while the *rest of the banking sector*, which has such a tiny capital base and such a mountain of bad debts that it is by most measures insolvent, has made the bulk of its *loans to increasingly* indebted and inefficient state-owned enterprises.

At the end of 1995, the borrowings of state enterprises represented 83 per cent of all outstanding bank loans. Meanwhile, the TVEs, which have been the fastest-growing companies in China in the mid-1990s, have struggled to get credit.

Mr Rao's unusual example, therefore, only adds to the evidence that, as Nicholas Lardy of the Brookings Institution, puts it: "The declining performance of state-owned enterprises. . .is a major contributor to the insolvency of large parts of the banking system." The weight of lending to unprofitable SOEs and the disproportionately high levels of lending to unproductive provinces in China underlines how the banks are still considered the tools of government policy.

Another clue to why Mr Rao's financial performance stands in splendid contrast to the damaged balance sheets of the banking sector in general is that his small business, he says, is too lowly for much political interference.

The World Bank has noted with concern that "state banks are not yet completely free to lend according to commercial criteria", as some loans are mandated by the central government and "the rest is subject to considerable informal government influence, particularly in the provinces".

Mr Rao's operation on the outskirts of the cement-making city of Longyan is so humble – the potted flowers grown and tended by the bank clerks during lunch break are a point of pride – that "that kind of political pressure is rare," he says.

Government interference in lending has been one of two reasons why the World Bank fears that the negative net worth of China's banks is unlikely to improve. The other is state control of interest rates, a factor which this year has again added to the strains on China's bank*ing sector* and raised *further* concerns about the health of the large banks.

Two of the biggest banks – Bank of China and China Construction Bank – have *both reported profits down* by roughly 40 per cent for 1998, citing the series of three interest rate cuts last year which ate into their earnings as the banks have *had to pay out on fixed rate* long-term deposits that, in some cases, mean a negative spread.

Even Mr Rao's banking outlet has felt a similar pinch. Earnings have been in decline, as profits fell from Rmb560,000 in 1996 to Rmb340,000 in 1997. Last year, Mr Rao admits, "we just broke even".

Japan's policy makers lurch to a new crisis

By Gillian Tett in Tokyo

Japan's *government* has staggered from crisis to crisis during the past year like a drunken man looking for support. Yesterday, it lurched again.

A mere two months after the Finance Ministry declared that its Trust Fund Bureau (TFB) would halt purchases of Japanese government bonds (JGBs), the bureau said it would buy Y400bn ($3.5bn) worth of JGBs before March 31.

Eisuke Sakakibara, the ministry's vice-minister, then announced he would "welcome" a weaker yen, after apparently championing a strong currency six weeks earlier.

For weary investors, such U-turns are not new. But the crucial questions now are whether the latest adds up to a coherent new economic *policy and whether it will* have any long-term impact on the markets or growth.

The answer seems to be "no". Though Tokyo traders are buzzing with conspiracy theories, yesterday's decisions appear to have been reactive, rather than any master plan. The bureaucracy still seems ridden with internal disarray and squabbles over policy.

It was Kiichi Miyazawa, the finance minister, who startled the markets in December by announcing that the TFB was about to stop buying JGBs.

At the time, as he pointed out, the decision made economic sense. The bureau is facing a potential funding squeeze because deposits in the national postal savings scheme which it manages are likely to fall.

But Mr Miyazawa apparently did not expect his comment to send bond prices tumbling. Though the ministry initially hoped that the Bank of Japan could be bullied into buying bonds to plug the gap, the bank apparently refused.

The ministry has come under growing pressure recently to prevent higher interest rates and a strong yen from strangling growth. Politicians in the ruling Liberal Democratic party, *for* example, are determined to boost growth before next *year's elections*.

At the same time, the US has been signalling disquiet *about Japan's policy ahead* of a Group of Seven finance ministers' meeting this weekend, and a planned visit by Lawrence Summers, deputy US Treasury Secretary, to Tokyo later this month.

"The ministry thought it had to do something to reassure the markets," says Yoshito Sakakibara, economist at Goldman Sachs. "These are temporary measures."

Such "temporary" measures may, *as Mr Sakakibara* points out, help in the short term. Pushing down *long-term interest rates in* the run-up to the end of the fiscal year on March 31 could help ease the pain in corporate Japan.

If a weaker yen boosts share prices, this will deliver another crucial upwards push, since Japanese companies hold vast equity portfolios.

Some government optimists even hope that yesterday's announcement could lead to a broader deal between the bank and the ministry. The ministry also said yesterday that it plans to raise more short-term bonds.

Though the bank has hitherto refused *to buy more 10-year* JGBs, it may be more amenable to purchasing *additional short-term bonds*, since this would give the bank more flexibility in its balance sheet. "I think eventually some compromise can be found," one government official says.

Though the TFB apparently managed to fund its planned bond purchases in February and March with surplus cash from housing projects, its funding pressures could return next year.

See Intl capital markets page

NEWS DIGEST

EASY STANCE ON MONETARY POLICY

Australia's central bank lowers inflation forecasts

Australia's central bank yesterday lowered inflation forecasts for the year and said there was a "clear case" for continuing its easy stance on monetary policy.

Recent data suggested that Australia's "quite robust" economic growth would continue through the year, the Reserve Bank of Australia said in its quarterly review. Recent stronger-than-expected growth was supported by low interest rates, ready availability of credit and a lower exchange rate, which assisted exporters, the bank said.

The statements were a departure from the bank's usually cautious pronouncements and quashed earlier speculation about an imminent cut in official interest rates. The bank late last year signalled concern about the potential inflationary effect of the weaker Australian dollar, which reached record lows of about A$0.56 against the US dollar last June.

But rapid diversification of exports, away from traditional Asian markets, and continued strong domestic demand had helped Australia weather regional economic turmoil, economists said. **Gwen Robinson, Sydney**

INDIAN POLITICS

Party pulls out of coalition

India's coalition government saw its already precarious parliamentary majority whittled further yesterday after a four-member regional party declared it was withdrawing its support in protest over recent subsidy cuts.

The Lok Dal party, based in the north-western Haryana state, pulled out after having failed to persuade Atal Behari Vajpayee, *the prime minister, to reverse* a series of subsidy cuts for certain rationed food staples and urea, a widely-used farm input.

The withdrawal of even just four parliamentarians could prove a serious blow to the coalition, led by Mr Vajpayee's Bharatiya Janata party (BJP), which narrowly won a vote *of confidence last year to form the government*. The Lok Dal's walkout follows a period of restiveness among other BJP allies, many of which have severely criticised the *Hindu nationalist party's handling of a spate of recent* attacks against Christians, along with the recent cuts in subsidies for food. **Mark Nicholson, New Delhi**

THAI GOVERNMENT

Plan to borrow $5.3bn

The Thai government plans to borrow $5.31bn including $1.47bn from the World Bank and Asian Development Bank, for the country's various economic restructuring programs in fiscal 1999, a government statement said yesterday. Of the total, $418m will be spent on central government's investment projects, $1.43bn on state enterprises' projects and $3.47bn on economic and social adjustment projects.

The statement said the World Bank would provide $1.2bn in loans for programmes in economic and financial restructuring, and for streamlining government bureaucracy. The Asian Development Bank will provide another $270m in loans for restructuring the agricultural sector and state-owned Krung Thai Bank. **AP, Bangkok**

SOUTH KOREA

Unemployment set to peak

South Korea's jobless rate is expected to top 9 per cent *as the country grapples with its worst economic crisis in* years, Labour Ministry officials said yesterday.

"The peak will come in late February or March, when college *graduates enter the job market and can't find* businesses hiring people," said a ministry spokesman.

Unemployment reached an estimated 8 per cent in January, *the highest since South Korea began recording* monthly figures in 1982. Officials said the figure would rise to 9 per cent – about 2m people – in late February or in March. *They expected the unemployment problem to ease* in the second quarter when the construction industry begins hiring more people in spring. The overall economy *also will start recovering in mid-1999, they said.* **AP, Seoul**

PHILIPPINE ECONOMY

Trade deficit tumbles

The Philippines's merchandise trade deficit tumbled to its lowest level in 26 years in 1998 as imports fell heavily due to a slowing economy, while exports held up well. The trade deficit narrowed to $164m in 1998 from $10.7bn in 1997. Merchandise imports fell by 17.5 per cent to $29.66bn while exports rose 16.9 per cent.

Economists said the level of imports had been much lower than expected, confirming a further slowdown in the economy in the fourth quarter of 1998. In December, payments for imports declined by 26 per cent to $2.02bn while receipts from exports slowed to 13.1 per cent to $2.523bn. **Tony Tassell, Manila.**

Brazil takes risk in dancing to IMF tune

By Geoff Dyer in São Paulo

Popular protests against the International Monetary Fund are nothing new. But the Brazilian carnival of 1983 must go down as one of the most colourful.

Mired in a deep recession, the government had been forced to go cap in the hand to the Fund for a loan. Objecting to the strict conditions being imposed on Brazil, some carnival-goers donned costumes depicting the Fund's negotiators in demonic terms.

The chorus line to a traditional samba was adapted by the Rio de Janeiro crowd to go something like: "Hey there IMF, give us some money, won't you!"

As this year's carnival comes to an end today, IMF and government officials will be putting the finishing touches to a new dose of austerity for Brazil, as it confronts yet another currency crisis.

The post-carnival medicine of more budget cuts and high interest rates will be swallowed just as the economy is plunging into what could be the worst recession since statistics began. There could be a new popular backlash against the IMF.

Brazil, which has witnessed a series of balance of payments crises over the last four decades, has had a particularly complicated relationship with the Fund.

The tone was set in 1959 when Brazil was negotiating a crucial $300m loan in return for a commitment to an anti-inflationary programme. Faced with mounting political opposition to austerity, President Juscelino Kubitschek broke off talks. "We are no longer poor relations obliged to stay in the kitchen," he said.

While the IMF has generally recommended short-term austerity as a means to longer-term expansion, the government has often found itself following calls for faster short-term growth, even if that means inflation.

The IMF has also been the target of the strong populist and nationalist instincts in Brazil. Lucas Lopes, the finance minister who drew up the 1959 stabilisation plan, was regularly denounced as an "IMF stooge" in the local press. Until recently, supporters of the Fund's policy recipe were often labelled by the left as *entreguistas* – something between a sell-out and a traitor.

"The relationship with the IMF is a litmus test for the strength of populist-style politics," says Prof Roett.

Many of these historical patterns are being repeated in the current crisis. When Arminio Fraga, a senior adviser to George Soros, the billionaire speculator, was appointed head of the central bank, Itamar Franco, the former president and current governor of Minas Gerais state, was quick to denounce foreign interference.

"We now have George Soros running the central bank and Stanley Fischer [number two at the IMF] in charge of the Finance Ministry," Mr Franco said. "Maybe we should all start to learn English."

These responses are not limited to opposition circles. Some government supporters in Congress did not take kindly to the Fund's plan to set up a permanent office in the central bank. And during his three weeks in January as president of the bank, Francisco Lopes let his frustration be known at what he considered the excessive interference.

Most importantly, a political dispute is simmering over the Fund's recommendation of high interest rates to limit inflation. According to Delfim Neto, who as a former economy minister is no stranger to the ways of the IMF, the government should take the Fund's money, but ignore its advice to keep rates high.

However, while many of the arguments are familiar, the current crisis is taking place in a different political atmosphere. President Fernando Henrique Cardoso has largely steered clear of populist posturings and hunts for scapegoats. Changes in the economy have also altered the debate.

According to Roberto Campos, the other architect of the 1959 anti-inflation plan, the reforms of recent years – from trade liberalisation to privatisation – have drawn the teeth of nationalist-populist economics.

"The potential for a backlash exists, but it is substantially reduced," says Mr Campos, 81, who was a federal deputy until last month. "Nationalist opposition to foreign influence was defeated in the battles over privatisation."

But a recent opinion poll, which showed Mr Cardoso's approval rating at the lowest level since he took office in 1995, suggests that someone else is getting the blame for the crisis this time: the government itself.

Klan fan takes on Monica Monica as Republicans line up in Louisiana

Richard Wolffe on the colourful cast preparing to contest the safe seat in Congress vacated by Bob Livingston

The Mardi Gras festivities staggered to an end in New Orleans yesterday, but the carnival of a Louisiana election campaign has only just begun in one of the Republican party's safest congressional seats in the south.

Six Republicans have already entered the fierce fight to replace Bob Livingston, the man who was destined to be House speaker but resigned at the height of the impeachment debate after revelations of his own extramarital affairs.

The race to replace him has attracted an eccentric cast of characters including an ophthalmologist called Monica Monica, a former grand wizard of the Ku Klux Klan, and the owner of a minor league baseball team. Six more Republicans are expected to join them in the primary elections on May 1.

At a time of widespread apathy toward Washington and the partisan warfare of impeachment, most of the candidates are attempting to mount populist campaigns which paint themselves as political outsiders.

Monica Monica – her father liked the name so much he named her twice – likens herself to Jesse Ventura, the former professional wrestler who stunned the political establishment by becoming governor of Minnesota in November.

"This race is about Jesse Ventura, it is about a change happening in politics all over the country," she said. "It is about somebody running who people feel is approachable and they can relate to. They are tired of voting for slick attorneys and career politicians."

Without political grass roots, Ms Monica says she is relying on her 10,000 patients to spread the word about her credentials. She insists she is "more than just a moniker", and has already won the support of Louisiana Congressman John Cooksey.

The more uncomfortable political outsider of the campaign is undoubtedly David Duke, the ex-Klan leader and former state representative in the district. Mr Duke's platform of "defending the rights of Christian whites" is likely to attract a hard core of loyal personal supporters.

Republican officials insist Mr Duke's support has waned sharply since he stood as the party's candidate in the 1991 governor's race.

In reality the Duke threat has been blunted as mainstream Republicans have adopted policies which bear echoes of his claims that too many federal policies are biased towards blacks, Jews and other minorities.

One of the two leading candidates in the field is David Vitter, a former state representative who ousted Mr Duke from the Louisiana legislature. Among a broad menu of ultra-conservative policies, Mr Vitter has pledged to "end all government-sponsored, race-based preferences and quotas".

Mr Vitter, a 37-year-old Rhodes scholar and Harvard graduate, has also styled himself a crusader against corruption in local politics, and alienated his colleagues by campaigning to end patronage powers such as the award of lucrative university scholarships.

However, the real challenge to Mr Vitter comes from the old-style populism of the political establishment in the form of Dave Treen, the 70-year-old former Louisiana governor and US congressman in the 1970s.

"I feel I can enhance the programmes that Congressman Livingston started that are so important for our state," he said. "I am in a better position than an entirely new face and I know a lot of the key players from the time I served in Congress."

Monica Monica: 'This race is about a change in politics'

In a relatively poor state, suffering from the oil industry downturn, New Orleans thought it had hit the jackpot with Mr Livingston's election as House speaker.

Tony Ligi, Republican chairman in Jefferson Parish – at the heart of the race – says: "People are looking for someone who can bring businesses to the area. That is why losing Congressman Livingston was such a blow, because he could have helped us at a time when we really needed it."

Hillary Clinton keeps pundits guessing in US

By Deborah McGregor in Washington

Senator Hillary Rodham Clinton of New York? What began as idle speculation about the First Lady's next career move has become serious grist for the political rumour mill, and attention is focused on the US Senate seat being vacated next year by the Democrat Daniel Patrick Moynihan.

So intense has become the speculation – and so formidable a candidate is the First Lady deemed to be – that Republicans have begun to gloat that Mrs Clinton has frozen the race. No Democrat will come forward to run until she declares her intention. The nomination is hers – if she wants it.

Many of those close to Mrs Clinton believe she would make a fine senator. But they are not convinced it would be the best career move and several are sceptical she will decide to run. The timing is hardly ideal, since she would find herself in a race for elected office while still First Lady.

"She would be a helluva candidate," said Carter Eskew, a Democratic strategist who has worked with Mrs Clinton. "But I would imagine after all she has been through that she might find it very appealing to take a step back and not jump right back into the political fray. She's aware it would be a tough campaign. Is that something she wants to subject herself to at this stage?"

There is also the matter of money. Running for the Senate is costly. Last year's ferocious New York contest between Democrat Charles Schumer and Republican incumbent Al D'Amato cost $40m, with Mr Schumer emerging the victor.

Rudolph Giuliani, New York's mayor and the Republican candidate who might be Mrs Clinton's opponent if she decided to run, is expected to raise more than $6m this spring. An early start is considered essential.

Few doubt Mrs Clinton could raise the funds she needs to finance a run for the Senate. But her supporters also believe she will be in a position to craft a satisfying – and more lucrative – career outside Washington once she and her husband leave the White House.

If Mrs Clinton decides not to run she has many options. She would be sought after as a corporate board member and could easily command speaking fees in the celebrity range of $30,000 or more. Any number of universities or charitable foundations would vie for the privilege of having her lend her name to their causes.

A high-profile, top-paying post at an international organisation, such as the United Nations, is also thought possible, allowing her to pursue her interest in the lives of women and children around the world.

Financial considerations will be important. The Clintons have accumulated about $8m in legal fees defending themselves in various scandals and inquiries, beginning in 1994 with the Arkansas land deal known as Whitewater. Part of the debt is being covered by funds raised from supporters' donations through a legal expense trust fund, but much will remain.

Mrs Clinton is accustomed to being the main breadwinner in the family. For most of the marriage, and certainly in the early years when, as governor of Arkansas, Mr Clinton earned just $35,000 a year, she pulled in more than $100,000 as a top corporate lawyer.

Whatever she decides, the post-impeachment world would appear to be Mrs Clinton's oyster.

"If there were two mutual funds, and one was named the Hillary Rodham Clinton fund and the other one was the Bill Clinton fund, I would definitely go for the Hillary fund. It has the most upside potential," said a Democratic pollster.

JORDAN ECONOMY KINGDOM SEES PROGRAMME AS VITAL AS IT EMBARKS ON TRANSITION FROM REIGN OF KING HUSSEIN

Amman close to IMF funding agreement

By David Gardner in Amman

Jordan is about to finalise an agreement with the International Monetary Fund on a structural reform programme, underpinned by a new three-year extended funding facility. The kingdom and its western allies see this as a vital boost to its stagnant economy as Jordan embarks on the tricky transition from the 46-year reign of King Hussein, who died 10 days ago.

The amount of the facility has yet to be finalised. It will probably be between $300m and $450m over the three years, with the prospect of a higher draw-down rate in the first year. Jordan, which has been working with the IMF since 1989 to reform its economy, this month comes to the end of a similar facility worth $330m.

An agreement, which could be initialled as early as tomorrow, should help unlock the mix of debt rescheduling and write-offs Jordan has been led to hope for following the massive show of support for the new King Abdullah by world leaders who flocked to his father's funeral last week.

A deal with the Fund would be especially timely, as pressure on the dinar began to pick up last weekend and is beginning to make itself felt now, say Jordanian and IMF officials.

However, both private bankers and officials say that the switch into dollars is running at no more than a third of the level of last summer, when the seriousness of King Hussein's illness became clear and the then government was about to fall.

Central Bank reserves then fell from $1.5bn to about $1.1bn, about the same outflow as August 1996, when a decision to cut bread subsidies under the previous IMF programme led to rioting and the eventual fall of that government.

"We think this is a short-term movement, and those speculating against the dinar ... will be changing their minds soon," Ziad Fariz, governor of the central bank, told the FT.

Despite expectations that King Abdullah was going to change the current government last weekend, he reconfirmed Fayez Tarawneh, prime minister, at the head of an unchanged cabinet.

The main task of Mr Tarawneh, formerly King Hussein's chief of the royal court, is understood to be to resolve the problem of Jordan's foreign debt – currently $6.8bn or 90 per cent of gross domestic product – by following up on pledges of aid and pressing the case for debt forgiveness.

So far, the most concrete pledge is of an extra $300m in aid from the US. Saudi Arabia has promised to resume deliveries of cut-price oil. The United Arab Emirates was reported to have deposited $150m in the Bank of Jordan yesterday.

The bigger prize for Jordan, however, is to get rid of its debt overhang. This year it is due to make principal and interest payments of $812m, up from about $500m last year and equivalent to nearly 11 per cent of GDP.

President Bill Clinton, along with President Jacques Chirac of France and Chancellor Gerhard Schröder of Germany, told King Abdullah they would press for a significant debt reduction with their Group of Seven counterparts.

The US wrote off $700m of Jordan's debt, and the UK about $65m, after Jordan signed its peace treaty with Israel in 1994. But the kingdom received nothing like the 50 per cent write-down Egypt received, along with more than $2bn a year in US aid, after the Camp David peace between Israel and Egypt in 1979.

Differing expectations about debt relief are intimately linked with the current negotiations about the size of the IMF package. The Fund believes that a Paris Club package will equal Jordan's foreign exchange financing gap over the next three years, which it calculates at $220m. Jordan reckons its foreign exchange shortfall will be around double that, possibly in a bid to get more generous relief and boost its reserves.

Algeria's troubled state at election crossroads

April's poll could be the fairest for years and herald a transition to civilian rule. Or it could be rigged and worsen the vicious civil conflict. Roula Khalaf reports.

Algeria has a chequered history when it comes to elections.

The first multi-party vote was cancelled by the army in 1992 to prevent the Islamic Salvation Front (FIS) winning a parliamentary majority.

In three out of four subsequent elections or referendums designed to erase the memory of the vote and install a limited version of democracy, most parties have accused the regime of manipulating the results.

So why is the country's political class buzzing with excitement at the approach of the presidential elections set for April 15? And why are more than 45 contenders scrambling to gather the 75,000 signatures to qualify as candidates?

The difference is that for the first time since 1992, there is now an open debate within the political class and, more significantly, inside the military-dominated establishment about the army's role in politics and the need for it to allow a fair election.

No one is expecting the army, which has been the key power since independence, to return to barracks soon.But there is mounting pressure on top decision-makers to stick to promises for a free election to begin a gradual transition. There are also fears that a botched election would aggravate an already explosive situation.

Algeria's crisis, which has cost more than 65,000 lives, can no longer be resolved by elections. Since 1992, the FIS has been banned and decimated as a political organisation and its armed wing has declared a ceasefire. The killings, considerably fewer than a year ago though still an almost daily occurrence, are now blamed on shadowy radical groups.

Some opposition candidates say a wider dialogue, including some leaders of the FIS is needed to help ease tensions. But most believe that returning the country to a state of law might prevent the ranks of the killers swelling again and allow the beginning of national reconciliation.

With the population battered by seven years of savage killings, repression and deteriorating social conditions, the frustrations that would have brought the FIS to power in 1992 are as poignant as ever.

Worse, the collapse of oil and gas prices on which Algeria depends means Algerians will be asked for further sacrifices.

To the political class's disappointment, the race for the April elections had a suspicious start. Two powerful retired generals have pushed the case of Abdelaziz Bouteflika, the country's longest serving former foreign minister, promoting him as "a consensus candidate".

He won the official nomination of the National Liberation Front (FLN), the former ruling party. He has also been backed by the leadership of Al Nahda, a small legal Islamist party, and by the majority of the national bureau of National Democratic Rally (RND), the main pro-regime party. Not surprisingly, this has led to widespread perceptions that Mr Bouteflika is supported by much of the army leadership.

But as he gathered support, his candidacy also came under fierce criticism from the privately-owned press and other candidates. It created serious rows within the RND and Al Nahda. Part of the RND has rebelled against what it calls "pressure from the top" and has wanted to put up its own candidate. At Al Nahda, one of the top leaders resigned to form his own party and run against Mr Bouteflika.

Most important has been the reaction of Liamine Zeroual, the outgoing president and a former army general. Mr Zeroual decided to call for early elections last September after what is believed to have been a clash with top army commanders. Since then, as tensions within the regime continued, he has consistently promised that the election will be free.

Last Friday, Mr Zeroual stunned the political class when he appeared to threaten regime insiders promoting Mr Bouteflika's case. "I will never hesitate to take any measure necessary against any attempt to distort this electoral process...and divert it from its noble objectives," he said.

His comments drew immediate fire from Khaled Nezzar, the former strongman of the army seen as one of Mr Bouteflika's backers. Mr Nezzar, who saw himself targetted by Mr Zeroual, issued a statement calling the president's remarks "tendentious and wrongly-timed."

Some analysts believe Mr Zeroual is in part settling scores with his rivals. But he clearly also wants to make a gesture towards Algerians before he leaves office. His insistence on neutrality in the elections is believed to be shared by many officers in the army.

"The elections are coming as a result of internal struggles in the system," says a spokesman for the Socialist Forces Front (FFS), a leading opposition party.

"There is resistance within the army and some are saying there is no question of imposing a candidate. This is an opening that we have to exploit."

In addition to Hocine Ait Ahmed, the FFS leader, other strong opposition candidates include Ahmed Talib Ibrahimi, a former foreign minister who has consistently called for dialogue with Islamists, and Mouloud Hamrouche, the former prime minister and architect of Algeria's first economic reforms. Both belong to the FLN but are running as independents.

President Zeroual: defending election's 'noble objectives'

For these candidates, the important question is how much the outgoing president will be able to weigh on the establishment, and what measures he might be able to push through to ensure neutrality. Mr Bouteflika's candidacy has no doubt been hurt. But there are many doubts that the damage will prevent him from winning the presidency.

For now, while Mr Zeroual waves the stick, other candidates are keeping up the pressure by warning that should they become convinced the electoral game is closed, they will withdraw from the race.

NEWS DIGEST

HIGH-TECHNOLOGY COMPETITION

Race to develop cheap internet devices

Low cost internet access appliances are set to invade the home, bringing fast and easy access to the internet but presenting Microsoft with a significant challenge to its domination of the personal computer industry, a conference heard yesterday.

Roel Pieper, head of Philips Electronics, said the Dutch company was already producing $8 microchips containing the entire circuitry of a colour television.

"We can place the circuitry of virtually any electronic device on a chip costing $20 or less," he said.

The new devices would affect every aspect of life from leisure to cookery, delegates to the annual Metre high-technology conference in Jerusalem were told. Consumer products groups including Philips, Sony and Matsushita were racing to develop the devices, which would not use the Microsoft operating system. **Alan Cane, Jerusalem**

TASHKENT BOMBINGS

Blasts 'aimed at president'

Several bomb blasts ripped through Uzbekistan's capital Tashkent yesterday, in what Uzbek officials say was an attempt on the life of Islam Karimov, the country's president. The explosions threaten the fragile stability of the former Soviet republic.

The first bomb apparently went off in the lobby of the government headquarters in Tashkent yesterday morning. Shortly afterward, a car drove through a police cordon set up around the site of the first blast, sparking a gun battle with police. The car's two passengers were killed, after which the car itself exploded, and was followed by four more car bombs around the city.

"This action was planned in advance and the blasts went off in four or five places," Mr Karimov later told Uzbek television. "The aim was to destroy the president and, if necessary, sow fear and panic among the civilian population." **Charles Clover**

NIGERIAN ELECTIONS

Anger at choice of candidate

Olu Falae, a former top civil servant and finance minister, has been nominated to contest Nigeria's presidential elections on February 27 on a joint platform for two of three political parties.

But his candidature, along with that of his running-mate, Umaru Shinkafi, a powerful former security chief, remained controversial yesterday as another contender, named earlier, refused to step aside.

A significant section of the All People's party is now in open revolt against the party leaders who forced through the electoral pact with Chief Falae's south-western regional party, the Alliance for Democracy.

Without the pact, neither party would have a realistic chance of forming what will be the first civilian government in Nigeria in more than 15 years.

Disarray within the alliance is likely to further the interests of General Olusegun Obasanjo, Nigeria's former military ruler, whose bid to return to the presidency 20 years after handing over power was endorsed on Monday by the People's Democratic party. **William Wallis, Lagos**

WORLD TRADE

US IMPORTS LOBBYING BY STEELWORKERS BOOSTS SUPPORT FOR PROTECTIONIST MEASURES

Support grows in Congress for steel quotas

By Nancy Dunne in Washington

Lobbying by hundreds of American steelworkers on Capitol Hill has dramatically boosted support for protectionist steel legislation in the House and set the stage for hearings on several steel bills next week.

One bill, introduced by Congressman Peter Visclosky, an Indiana Democrat, had by yesterday garnered 159 co-sponsors, including the House Democratic leadership and several Republicans. The bill would limit all steel imports, country by country, to the monthly average volume they recorded during the three-years preceding July 1997. The three-year curbs could take the form of quotas, surcharges or enforceable restraint agreements.

The Clinton administration has steadfastly rejected calls by the steel industry and its unions to initiate an investigation under Section 201 of US trade law, which could lead to worldwide quotas. However, on Friday, the Commerce Department levied steep antidumping duties on hot-rolled steel from Japan and Brazil. Additional antidumping cases are expected to be filed this week against imports of steel plate.

The administration has given Russia until this week to agree to curb its steel exports to the US and raise prices or risk being excluded from the market.

A spokesman for Mr Visclosky acknowledged that his legislation is "probably not" in compliance with World Trade Organisation rules. "But if the administration enforced the laws we have on the books, we wouldn't have to introduce this bill," he said.

A similar bill has been introduced in the Senate, which is usually more reluctant than the House to consider protectionist measures. Pressure from steel workers last week brought a Republican backer on board – Arlen Spectre of Pennsylvania.

An aide to Senator Rockefeller said interest in the legislation extends to senators with no steel plants in their district. "They are saying if we let this happen with steel, next it will be an industry in my district."

While the industry and its supporters in Congress are building pressure on the White House for action, importers say the industry has exaggerated its pain. Fujio Ono, chairman of the Japan Steel Information Center, last week said claims about the "dire situation" of the US industry and the need for import curbs were "unjustified, ill-considered and counterproductive".

He said the steel companies themselves increased imports in the first half of 1998, when US mills could not meet demand. "Demand for steel sheet was at a record high level, and US steelmakers were operating at maximum capacity. US steel mills dramatically increased their shipments of higher value-added products.

Mexico's ailing pig producers struggle to save their skins

Patience of the country's pork farmers, beset by everything from disease to cheap imports, is wearing thin. Henry Tricks reports

The sides of the main road into La Piedad, the town at the centre of Mexico's pork producing region, is littered with carcasses – not of pigs but of pig farms.

Abandoned barns, broken windows, and pig pens overgrown with weeds tell the story of a backyard industry that has seen so many reverses – from disease to dietary changes to competition from cheap imports – in the last two decades that many farmers have simply given up.

For the stubborn survivors, there was a rare moment of triumph early this month when Mexico announced preliminary anti-dumping duties on US slaughter hog imports to Mexico entering below the reference price – considered the "normal market price" – of $1.08 per kg.

The duties followed an unusually provocative protest campaign by pork producers that reflects a new trend in the way Mexican farmers across many sectors put pressure on their government over trade issues.

The farmers insist it is not a protectionist campaign, but one of their targets is the North American Free Trade Agreement (Nafta) that Mexico entered into five years ago with the US and Canada.

Farm leaders have called – so far to no avail – for a suspension of the phasing out of agricultural tariffs under Nafta. They want this until the Mexican government delivers the economic conditions that were expected during the heyday of pre-Nafta optimism and before the peso crisis of 1994.

Farmers have also begun warning about Mexico's incipient free trade talks with the European Union, and demanded any treaty should rule out export subsidies on EU farm products, something EU officials have so far rejected. The issue threatens to become one of the toughest in the negotiations, even though, by the time any deal is reached with Brussels, pig and poultry exports may no longer receive subsidies.

"If their products are allowed in with export subsidies, it's going to be open rebellion," warns Antonio Ortiz, head of the National Pork Producers Council in La Piedad. "We're not going to be sacrificed again."

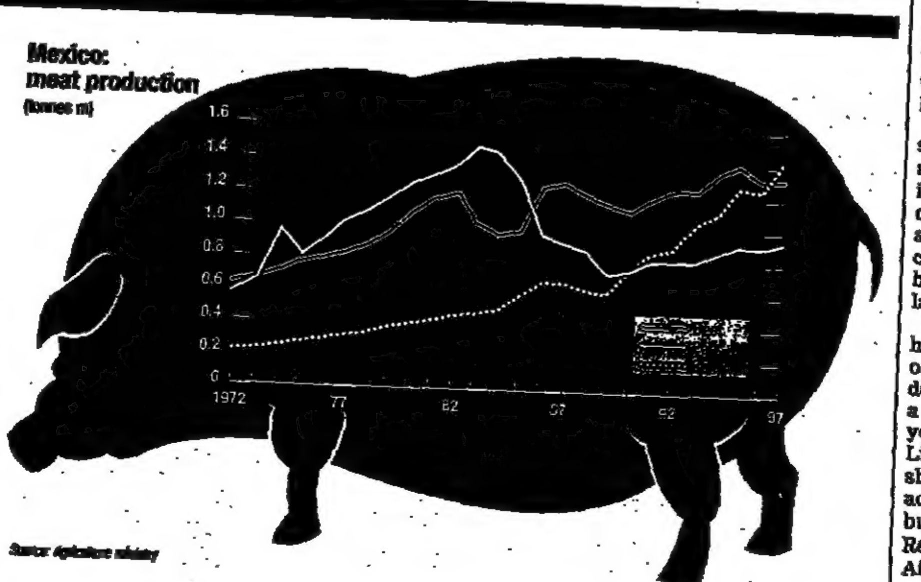
Such fighting talk used to be rare in the Mexican farming community, whose leaders worked hand in glove with the ruling Institutional Revolutionary party (PRI) and offered bloc votes from peasant farmers to help sustain the grip on power the party has held since 1929.

But almost two decades of recurrent economic crises have robbed the government of funds to pump into the farm sector, on which a quarter of the population depends for its livelihood. Patience has worn thin.

In December, hundreds of pork producers protesting over import competition from the US struck directly at Nafta's spinal cord, blocking the Texas-Mexico border crossing in Nuevo Laredo, and tying up all trade traffic for 26 hours.

Other farm sectors are turning to professional lobbyists and public relations companies to counter the non-tariff advantages they say US farmers have.

After a long campaign, the nation's poultry producers have won a battle to block from the beginning of this week imports of Avian Influenza-ridden fowl, having almost eradicated the disease with a $130m vaccination drive in Mexico. It is, they say, the first time they have persuaded their government to impose restrictions on US poultry imports for health reasons despite a cordon of sanitary barriers blocking their access to the US.



Mexican officials acknowledge so-called "backyard" meat producers are handicapped because bank credits to small farmers have been stalled since Mexico's financial crisis, and many remain swamped by bad loans. That puts them at a huge disadvantage to US farmers who, in addition, are among the most efficient in the world.

On the other hand, the trade ministry says modern, well-capitalised agro-industrial outfits have thrived since Nafta and the treaty has provided export opportunities for products such as tomatoes and avocados. The ministry points to a 54 per cent rise in agricultural exports from Mexico to the US and Canada, from $3.2bn in 1993 to $5bn in 1997, as evidence the treaty is working.

The pork industry is different, however. While the continued presence of swine fever in Mexico means only one of the country's 32 states is permitted to export to the US, live pigs and pork products from the US have swept into Mexico as prices have tumbled north of the border and the Asia crisis has weakened demand.

Part of the battle stems from cultural differences. In La Piedad, restaurants do a roaring trade in deep-fried pig lips, skin and trotters, which most Americans cringe at the thought of.

Likewise, Mexicans love chicken legs, wings, and claws, while US consumers eat mostly chicken breast. The US farmers, who used to discard those unwanted parts, have realised they can be sold in Mexico at a fraction of their production cost, and have targeted the market aggressively.

The imports put the trade ministry in an awkward spot, because it wants to ensure a ready supply of cheap food for Mexico's poor. But that is increasingly irritating farmers, who accuse the government of relaxing quality control at their expense.

"All I'm asking of my government is to recognise that I have a constitutional right to protect myself," says Enrique Dominguez, head of the pork producer's lobby in Mexico City.

Slower delivery helps container shipping sector

By Charles Batchelor, Transport Correspondent

A slowdown in the delivery of new ships will provide some relief for the hard-pressed container shipping sector over the next two years, a survey by Containerisation International said.

Just over 200 new ships with capacity for 307,400 20ft containers will be delivered this year, expanding total capacity in the sector by 7 per cent.

A further 100 ships with space for 254,000 containers are expected to be delivered in 2000, an increase of 4 per cent. Both years represented a slowdown on 1998, when container "slots" increased by 12 per cent, CI said its latest yearbook.

The container lines have had to cope with chronic overcapacity which has depressed returns and led to a spate of mergers in recent years. Last week Maersk Line, the largest container shipping group, agreed to acquire the container line business of Safmarine and Rennies Holdings, the South African group.

A further boost to returns would come from an expected increase in the scrapping of older vessels, the report said. Ships accounting for capacity of between 80,000 and 120,000 containers would be scrapped in each of the next two years.

Many of the vessels to be scrapped were built in the early-to-mid-1980s with lower grade steel and with engines now regarded as too slow.

The trend towards larger vessels was also accelerating, CI said. Ships capable of carrying more than 4,500 containers, which makes them too large to sail through the Panama Canal, currently accounted for 8 per cent of all container slots but this would rise to 10 per cent by 2001.

Maersk brought into service more 6,000-6,600 container vessels while P&O Nedlloyd took delivery of four 6,700 container carriers. Nipon Yusen Kaisha phased five 5,700 container ships into its Europe-Asia service.

Maersk consolidated its position at the top of the league with capacity for 346,000 containers. It was followed by Evergreen-Uniglory Marine with 280,000 and P&O Nedlloyd with 251,000. Mediterranean Shipping moved up from eighth to fourth position in the table with 221,000.

The number of containers landed or shipped through port rose 10 per cent to nearly 164m in 1997.

Hong Kong remained the busiest port, handling 14.57m containers, followed by Singapore with 14.13m containers.

The Japanese ports had a lean year with Tokyo and Yokohama barely matching the previous year's volumes.

The container leasing sector had taken "a severe pounding" in recent years with little prospect for improvement in 1999, CI said. Daily rental rates fell to a 10-year low in 1998 and in real terms were at their lowest point ever.

Consolidation of the container shipping sector during the mid-1990s brought about a reduction in purchases of new containers and depressed prices. This persuaded many ocean carriers to invest in their own containers rather than lease them.

The price for new boxes fell by more than 30 per cent between 1995 and 1998 and helped push down rental rates as well. The rate for an average 20ft box under a master lease fell from $1.65 a day in 1995 to $1.20 in 1998.

Usage rates have fallen too, with an estimated 15 per cent of the total stock, or more than 860,000 containers, idle at depots around the world.

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NORTHERN IRELAND ASSEMBLY PLANS APPROVED AS PREMIER EMPHASISES NEED FOR IRA WEAPONS HANDOVER

Unionist chief wins executive vote

FT Reporters
in London and Dublin

David Trimble, leader of the pro-British Ulster Unionist party, won a much needed boost yesterday when the new Northern Ireland assembly voted to approve the planned power sharing executive.

Unionists hostile to the 1998 peace accord failed to muster more votes than those supporting the settlement.

Roy Beggs, a UUP assembly member who threatened to vote with the unionists opposed to the accord, sided with Mr Trimble. It meant 29 unionists voted for the power sharing arrangements to enable the regional executive to open. A further 29 hostile to the accord voted against. The total vote in favour of the power sharing arrangements was pushed to 77 by nationalist parties.

The new structures will involve 10 ministries and six cross-border bodies, which will implement policy in co-operation with the Irish republic. The assembly's move paves the way for Mo Mowlam, chief Northern Ireland minister in the UK government, to authorise the formation of the decision making executive by the scheduled date of March 10.

Mr Trimble, Northern Ireland's first minister, insists Sinn Féin, political wing of the Irish Republican Army, cannot take up the two seats to which it is entitled on the executive until the republican paramilitaries start handing in their weapons.

At a meeting in London, Tony Blair, UK prime minister, yesterday impressed on Gerry Adams, Sinn Féin leader, the need for decommissioning to commence.

Mr Blair's spokesman later said: "Both sides reiterated that nobody in Northern Ireland would forgive any of the parties if this agreement, and all the work that has gone into the agreement, was allowed to fail."

Explosives were seized by police yesterday in west Belfast. Police officers said they were weapons belonging to the IRA. They included a loaded Armalite rifle, a large amount of ammunition and loaded coffee-jar bombs, police added.

Mr Adams said Mr Trimble would be strengthened by the assembly vote. "None of us can afford to let this agreement go down. Neither David Trimble nor any of the other players can afford to see what we have built up collapse," he added. Martin McGuinness, Sinn Féin chief negotiator, said: "This is another good day for the peace process."

On decommissioning, Mr Adams repeated Sinn Féin's view that there can be no preconditions on the party taking its seats.

Bertie Ahern, Irish premier, said it was not reasonable to expect the executive to be put in place without a compromise on decommissioning.

Internet service groups face challenge from free providers

The surge in free access to the web poses a serious threat to companies still imposing monthly charges, says Christopher Price

Free access to the internet will be bad news for many of the estimated 300 internet service providers in the UK, where few local phone calls are free.

The past two weeks have seen Toys R Us, British Telecommunications and the Tesco retail chain announce free access services. Line One – a joint venture between BT, United News & Media and the News International offshoot of Rupert Murdoch's media empire – is also expected to join the trend.

The Toys R Us initiative was new but two of the other services previously charged subscribers a monthly fee. BT's Click made its revenues from higher call tariffs.

The moves are a direct response to Freeserve, the free internet service launched by Dixons, the electrical retailer, last September. In five months it has attracted more than 1m users – 40 per cent from existing internet service providers. Freeserve makes its money from advertising, sponsorship and electronic commerce. The service has been so successful that Dixons has brought forward its break-even date from the end of this year to April.

John Clare, chief executive of Dixons, believes other ISPs will have to follow Freeserve's lead. "Paid-for ISPs are going to have to remodel their businesses. There may be some niche players who will offer value-added services where a monthly charge might be sustained. But the mass market gateway to the internet will be free."

But Frank Keeling, marketing director of America Online UK, the UK's second biggest ISP, believes value-added services are the key. "AoL is not like an average ISP – we offer our subscribers an opportunity to join a community with a variety of services. People are willing to pay for a premium online service."

Subscribers to AoL pay between £4.95 ($8) and £16.95 a month for access to the internet and to AoL's content, including chat and electronic commerce.

Mr Keeling admits the group keeps prices under review in response to the flurry of free services.

John Swingewood, BT's director of internet and multimedia services, says the decision to make BT Click free came in response to consumer demand.

But BT's other internet service, with about 180,000 subscribers paying £10 a month, will remain. "There is a need for a feature-rich ISP service that people are willing to pay for," he says.

David Furniss, marketing director of Demon, agrees. "Our users want more services than an ordinary ISP can deliver," he says.

Nick Gibson, internet analyst at Durlacher, the investment bank, says subscription-based ISPs will come under increasing pressure to differentiate themselves. Many of the smaller ISPs are already offering web hosting and site design services.

He also believes features such as high-speed access and reliability of connection will be increasingly important issues, particularly for businesses. This is supported by Laurence Blackall, chairman of Internet Technology Group, the UK's biggest independent ISP. He intends to charge business customers for the services they require – such as additional web spaces – and launch a free ISP for consumers.

But for Freeserve to prosper it must deliver "eyeballs" to advertisers and e-commerce sites. To do this, it must make its home page, where all users start their internet visit, as attractive as possible. It is signing up content companies to provide the services established ISPs see as differentiating them, such as games and financial services.

Online booking, Management & Technology

'Air rage' prompts BA to alter insurance for crews

By Michael Skapinker, Aerospace Correspondent

British Airways has told its staff that they will be compensated if they are injured while trying to restrain violent passengers.

BA said it had changed its insurance cover so that employees can be compensated without having to prove the airline was negligent. Compensation will be available to both flight and ground crew.

Last week 12 passengers allegedly involved in a mid-air brawl returned to the UK after being thrown off an Airtours flight to Jamaica that was diverted to Norfolk, Virginia.

David Hyde, BA's safety director, told the airline's staff newspaper: "It's important that our people feel they have British Airways' full backing when tackling disruptive passengers."

BA said it made the change to its policy after discussions with its unions. "This is to give people the confidence to tackle violent and disruptive passengers knowing that, in the unlikely event of of bodily injury, they're covered by their airline," BA said.

The airline said it suffered 266 incidents on its flights in the year to April 1998. Of those, 17 passengers had to be forcibly restrained.

Yesterday, a 29-year-old man pleaded guilty to endangering a BA flight from London to Bangkok in January. Magistrates in London heard the man attacked passengers and smashed an inside window after drinking three double whiskies. He will be sentenced next month.

Neville Kesselman, prosecuting, said: "Just as there are restrictions on smoking in-flight for reasons of comfort of passengers, so there is an arguable case for a restriction in-flight of consumption of alcohol for reasons of the safety of passengers."

NEWS DIGEST

NATIONAL CRIMINAL INTELLIGENCE SERVICE

Triads behind credit card fraud increase, say police

Triad gangs are behind a big increase in credit card fraud in Britain, the National Criminal Intelligence Service revealed yesterday. The centralised police agency estimates that losses incurred by legitimate issuers as a result of the use of counterfeit cards tripled between 1994 and 1998 and stands at around £26m ($42m) per annum. An estimated 80 per cent of the counterfeiting is being organised by criminal groups based in Hong Kong and Malaysia, using small mobile factories in the UK to produce high quality fakes, NCIS said. "There is clear evidence that organised criminals are exploiting the payment card industry, using counterfeit cards to defraud millions of pounds," Wayne Smith, head of the agency's specialist crime unit said. **Jimmy Burns, London**

THE ECONOMY

Inflation unchanged at 2.6%

The underlying rate of inflation, which excludes mortgage interest payments, increased at an annual rate of 2.6 per cent in January, government figures showed yesterday. The rate was unchanged from December, and stayed 0.1 percentage point above the government's target of 2.5 per cent. The figures caused surprise in the City, where most forecasters had expected a fall in the underlying rate. **Melanie Carroll, London**

MICROELECTRONICS

Fujitsu plant for sale

The £370m ($603m) Fujitsu semiconductor factory in north-east England, which closed last year, has been put up for sale for only £12m, it was disclosed yesterday. The taskforce set up to deal with the effects of the closure has hired Healey and Baker, the international estate agents, to market the eight year old factory at Newton Aycliffe. The agents are writing to 1,700 companies worldwide. Fujitsu blamed the closure on the decline in the global microchip market. The company pledged to keep the plant fit for microelectronics use until a review at the end of February. It may then move out the semiconductor equipment but continue to maintain the plant in the hope that a buyer can be found. Talks are continuing to sell it for microelectronics production. **Chris Tighe, Newcastle upon Tyne**

SHIPBUILDING

Kvaerner yard warns ministers

The future of the Kvaerner Govan shipyard on the River Clyde in central Scotland remained uncertain yesterday after Lord Macdonald, the Scottish industry minister, and trade union leaders failed to secure guarantees from Kjell Almskog, the Anglo-Norwegian engineering group's new chief executive. The yard recently failed to reach the shortlist for a UK government order and will run out of work by June without more orders. Mr Almskog told the delegation the Govan had almost never made a profit in the 10 years Kvaerner had owned it. **James Buxton, Edinburgh**

No-fee web use offered to schools

Simon Targett
Education Correspondent

Children, parents and teachers are to get free internet access and an e-mail address under a deal for schools unveiled yesterday by Voss Net, the computer consultancy.

The deal – a partnership with Free Computers for Education, a charity – will mean Voss Net going head to head with Dixons, the electrical retailer, which launched the first free internet service last year.

But in a bid for market supremacy Voss Net has promised to plough back some profits, accrued through the use of the telephone lines, into the education system.

Voss Net also plans to run a cheap help service and keep the system free of advertising – likely to appeal to parents worried their children could be vulnerable to unscrupulous salesmen.

The ground-breaking four-year deal – backed by Rotary International, which will market the service in 1,800 clubs around the country – will enable pupils to gain access to the internet after school.

It reinforces a move by ministers to set up a £700m ($1.14bn) "national grid for learning" by hooking up every school to the internet.

Voss Net yesterday said it would raise up to £125,000 through a placing of new ordinary shares at 45p per share to raise working capital for the project.

● A consortium led by ICL, the Japanese-owned information technology services group, has been selected as the preferred bidder for a £500m contract to requip Customs & Excise with new IT and telecommunications systems, Christopher Price writes.

The move means that the consortium – which also includes Racal, Mitsubishi and Microsoft – will begin negotiations with the government over the final details of the deal. A consortium led by British Telecommunications was the other potential bidder.

BIOTECHNOLOGY MINISTER UNDER FIRE

Media accused of 'stampede' in GM food debate

By Clive Cookson, David Wighton and John Willman

Tony Blair, the prime minister, yesterday accused the opposition Conservative party and parts of the media of a "stampede" over genetically modified foods as a scientific campaign began against a ban on GM crops.

The prime minister strongly defended Lord Sainsbury, the science minister, against charges that he faced a conflict of interest.

Lord Sainsbury admitted he owned patents connected to biotechnology. He also has shares in the J Sainsbury supermarket chain, a former family business. Both the patent and the shares were transferred to a blind trust when he joined the government.

The Conservatives were behaving with "hypocrisy and total opportunism" in renewing calls for Lord Sainsbury's resignation, the prime minister said, and the "hounding" of him was "unpleasant and wrong".

John Redwood, the Conservatives' chief industry spokesman, said Lord Sainsbury's revelation strengthened the case for him to be barred from any role in biotechnology policy. But Mr Blair insisted he had followed ministerial rules "to the letter".

Sir Robert May, the government's chief scientific adviser, said Lord Sainsbury played no part in discussions on government policy on GM foods.

But he conceded there may have been a public "perception" of a conflict of interest.

Six of the UK's leading biologists earlier challenged claims that work by Arpad Pusztai, a researcher at the Rowett Institute in Aberdeen, Scotland, showed GM potatoes damaged the immune system and vital organs of rats.

Dr Pusztai was forced to retire from the institute last year after releasing his results to a television researcher.

The institute, reacting to accusations that it was suppressing Dr Pusztai's findings, released the report he wrote in reply to a committee of outside specialists. It said the researcher had refused to respond to repeated requests to provide papers for publication on his work.

The institute also denied it had been influenced in forcing Dr Pusztai's retirement by research grants from Monsanto, the life sciences group behind many of GM products. Its contract with the US group provided less than 1 per cent of its income and was not related to GM food.

TOBACCO COMPANIES APPEAL HEARING

Group test case on lung cancer is adjourned

By Charles Pretzlik

The threat of substantial damages against UK tobacco companies being sued by lung cancer sufferers receded yesterday when the Court of Appeal in London adjourned a group action.

The adjournment was requested by lawyers representing a group of lung cancer suffers after a High Court judge last week ruled many of them could not bring their cases to court because they had started legal proceedings too late.

The news boosted shares in Imperial Tobacco and Gallaher. Imperial, which makes Lambert & Butler and John Player cigarettes, rose 43p in London to close at 754½p. Gallaher, whose brands include Benson and Hedges and Silk Cut, rose 21p to end the day at 444p.

Gallaher said the plaintiffs' law firms, Leigh Day and Irwin Mitchell, asked for the adjournment to enable them "to consider with their clients the future of this litigation". The hearing had been due to begin yesterday but no new date has been set for it.

Jonathan Fell, an analyst at Merrill Lynch, said: "It looks as if the Leigh Day action might fold. It was important the tobacco companies didn't lose this case."

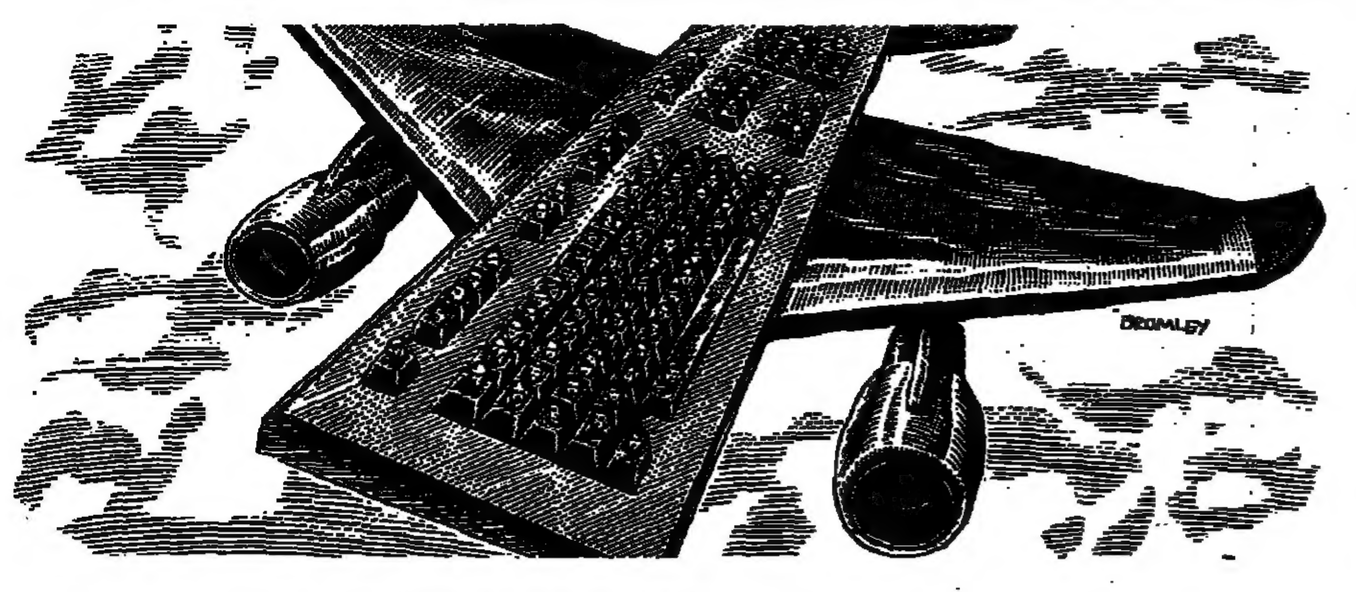
Lawyers for the plaintiffs declined to comment. Some industry observers said the adjournment could trigger an out-of-court settlement but Gallaher and Imperial have long maintained they would not settle.

The companies face total claims of about £2.6m, or about £50,000 each from 52 people suing them. However, analysts said if the ground-breaking, legal action were successful it could open the flood gates to "thousands" of similar cases.

The tobacco companies claimed a victory over the claimants last week when a judge ruled in the High Court that smokers must bring their claims within three years of diagnosis of a smoking-related illness. He ruled that eight of the original claims should be barred because they were filed after this deadline. The tobacco companies said a further 28 of the remaining 44 plaintiffs could also be affected by the three-year deadline.

The adjournment represents the second blow this week for the anti-smoking lobby. Proposals for National Health Service hospitals to sue tobacco compaies were rebuffed on Monday when the government's Department of Health warned court action would require new legislation, which the government did not intend to pass.

TECHNOLOGY



INFORMATION TECHNOLOGY **BUSINESS AND THE INTERNET**

Online booking takes off

Lufthansa plans to offer more than just travel on its website, writes **Christopher Price**

europe.com

Airline travellers have never had it so good. From low-cost operators and discounted tickets through to budget packages and frequent flyer programmes, cheaper and more available travel abounds. Throw in the fast-growing online booking business, and the glowing consumer picture looks complete.

Not so for the airlines themselves. The threats and opportunities these developments have thrown up are many and varied. One thing, however, is clear: cheaper travel means pressure on margins – and makes the *need to cut costs ever more* apparent.

One response has been a raft of alliances and partnerships among operators, underpinning the long-running consolidation in the industry.

Others have seen the arrival of the internet – and the swathe of self-styled discount ticket merchants – as an opportunity to examine their own sales systems.

Predictably, US operators, such as American Airlines and United Airlines, have led the way in this. However, in Europe, Lufthansa has also been at the forefront of online initiatives, which are having a rapidly increasing bearing on its business.

Last year, for example, the German group had revenues of DM50m ($28.7m) from its internet ticket sales, up from DM12m in 1997. The number of passengers booking electronically also qua*drupled last year, to some 41,000.*

While these figures are still a very small proportion of the airline's total, ticket sales are only part of the Lufthansa internet strategy, which aims to broaden the group's revenue base, as well as helping to reduce costs.

The group launched its drive into the internet in 1995. Stefan Pichler, executive vice-president of sales, says the initial aims were threefold.

First was the opportunity to cut out booking agents' fees through the sale of tickets via a Lufthansa web site. "We thought that *being a global company* which sells its inventory globally, the internet would be ideal *for* us," he says.

This was seen as particularly suitable for simple trips where travellers did not need advice, or any other help from a travel agent.

"We also saw the opportunity to get closer to our customers," says Mr Pichler. "We recognised that our competitive advantage would move on from being the company with the best network to one which knows its customers best." A global customer database became a key plank in the group's new strategy.

The third aim was to continue the company's technology drive, which had already embraced Germany's TOnline system, an electronic data service, and CDRoms as part of its developing electronic booking system.

Today, Lufthansa's web offerings (its main site is *www.lufthansa.com)* span a multitude of services and have spawned a *clutch of awards. Its InfoFlyway* service enables online booking and participation in schemes such as the discount fare programme.

The airline's frequent flyer scheme, Miles and More, can also be joined via the internet and members are able to access their accounts.

Perhaps the most innovative service is Lufthansa's online booking service to embrace more than 700 airlines.

Travellers can book tickets via the German group's site *24 hours* a day as well as get flight infor*mation. Some 5 per cent of Luft*hansa's ticket sales are now sold *for other airlines.*

"It widens our revenue base and also promotes customer loyalty for using us even when we are not the airline doing the flying," says Mr Pichler.

Lufthansa's business travellers are, perhaps not surprisingly, the most enthusiastic users of the internet service. Forty per cent of tickets booked are either business or first class.

Almost half of these are electronic tickets, where travellers collect their boarding passes on arrival at the airport. "It's convenient for the passengers and cheaper for us," comments Mr Pichler.

Other developments are afoot. The group has recently started gaining revenues from web advertising, while its links to other airline sites may also have the potential for future revenue leverage.

And while bookings can be made only in English and Ger*man at present, the group is* planning to launch home pages in 35 *other languages.*

Baggage tracing, city and country travel guides, tourist information, and links to hotels and other accommodation are also under development for the online traveller.

But Mr Pichler believes the introduction of individual e-mail for its 400,000 registered users, which is in the pipeline, will be a crucial development in strengthening and redefining Lufthansa's relationship with its customers.

From that he sees the internet developing into a platform that will enable the group to market *other services and products, and* deal with investor relations and *recruitment.*

Lufthansa's strategy is not without risks. The investment it is making may simply slow down the stream of travellers being tempted away by different ticket suppliers, both traditional and online.

However, it also recognises that the internet presents an opportunity to add value to its business across a number of different levels. These may be hard to measure at present, but the benefits could eventually be immense.

LOUISE KEHOE
IN SAN FRANCISCO
EAGLE EYE

A virus in the Valley

Greed 'geeks' are giving Silicon Valley a bad name, but will they blunt its cutting edge?

Silicon Valley is becoming as well known for its wealthy inhabitants as it is for its *technology start-ups. Locals joke* that much of that wealth can be *found each morning "parked"* involuntarily on Highway 101, *the freeway that cuts through* the valley north to south.

Flashy cars, traffic congestion, the high cost of housing and stock option prices is the banter of the valley's high-tech "geeks" – displacing their enthusiasm for technology, new products and gossip about competitors.

This trend worries some valley veterans, who complain that there is far too much focus on money these days and too little of the pioneering spirit that established this region as the world capital of high-tech. *It is* not the handful of billionaires who are the problem, rather it is the next few tiers of people with *several million dollars worth of* "paper" – stock and stock options – to their names.

The first symbol of their success, in true California style, is the car. There are three Ferrari dealerships in the San Francisco Bay Area while BMWs and Porches are a dime a dozen, it sometimes seems. On perennially clogged freeways, these vehicles cannot get their owners to their destinations any faster than a banged-up Ford, but with their personalised number plates they *tell the world that these drivers* have "made it".

The average income in Silicon Valley is 60 per cent above the *national average.* In the fast growing software sector, average annual pay is more than $90,000 or almost three times the national average. Workers in the computer and communications sectors squeak by on an average $73,000 a year. And new college graduates can earn more in Silicon Valley than on Wall Street.

High wages, more jobs, more start-ups, more venture capital . . . more wealth. So what is wrong with this prosperity? Heidi Roizen, who describes herself as a "recovering entrepreneur" and one of the valley's "grey hairs" – although *she* is a young-looking 40-something – finds plenty to *worry about.* She recounts conversations with a man who whined about netting only $25m from the sale of his company and with a couple who consider themselves "failures" because their combined annual income is only $200,000. Where else, she asks, would this sound normal?

In the 1980s, when Ms Roizen founded T-Maker, a software company, "nobody talked about 'liquidity events', we were out to create the technology revolution, to change the world and we assumed the money would follow", she says. By contrast, *today's entrepreneurs seem to* regard technology merely as a *means of amassing personal* wealth, she complains.

Some people blame the new money-grubbing attitude on an influx of east coast business school graduates who are young enough to have studied the Silicon Valley "phenomenon" and now fly west to join the gold rush. But perhaps the clash between "old" and "new" money in the valley has more to do with the differing outlooks of "baby-boomers" and the baby-faced "Generation Xers".

Whatever the cause, *the* question is whether greed, as *some of us would label it,* will undermine Silicon Valley, *dampening its ability to create* generation after generation of new technology ventures?

It would be a mistake to rush to judgment. One of the essential elements of Silicon Valley culture is its welcoming attitude to immigrants who can demonstrate their technological prowess and entrepreneurial zeal.

For at least as long as most of us are around to watch, it is safe to predict that the valley will remain the premier region for high-technology industry and the model that many other parts of the world will attempt to emulate. The question is whether it will be as much fun as it has been for the past 20 years.

* * *

Most of the popular internet search services have turned into "portals" that rely upon users' struggles to navigate the world wide web to ply them with advertisements and invitations to make e-commerce purchases.

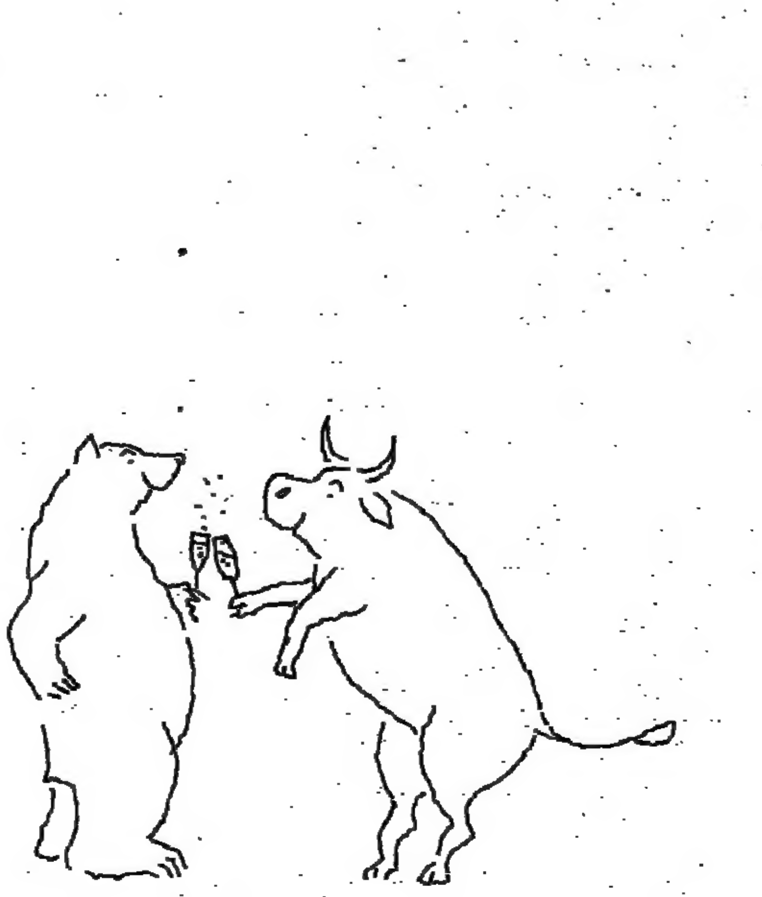
But if you are intent upon searching for specific information, the top name portals are often disappointing. They throw up dozens of web site addresses that often seem irrelevant. Metasearch engines can be more fruitful. There are several available, most of which automatically engage a few of the well known search services and present the combined results.

One such service is Freeality (www.freeality.com) which provides links to more than two dozen search services. I am a Freeality fan but the web-based service did not match the performance of Copernic 99 Plus, a search program that similarly tallies the results of several "engines", eliminates duplicates and ranks according to relevance.

Copernic Technologies is swimming against the tide. Rather than creating a web-based service, the Quebec company, created by two young software enthusiasts, is trying to sell internet search software. Free use of Copernic's 1998 search *software is available at the* company web site *(www.copernic.com) but the latest* and best version must be purchased.

Even the idea of downloading software is fast becoming anathema among web-savvy internet users but Copernic's software might be worth the effort. In a run-off against a colleague using Freeality, I won easily in a search for who it was that said: "I have wasted half the money I ever spent on advertising but I don't know which half." (The answer is US retail mogul John Wanamaker.)

It is a quote that even the biggest names in internet search services might do well to keep in mind.



Flying peasant heels and great good humour from all the artists in Enrique Martinez's version of 'Coppélia' made for a good evening

Bold design for a bravura performance

In Toulouse **Clement Crisp** enjoys a boisterous version of a much misunderstood masterpiece, 'Coppélia'

Coppélia should always be treated as a masterpiece, even if it is a masterpiece misunderstood. Delibes' score, like his *Sylvia*, is the equal of the Tchaikovsky trilogy in musical and dramatic grace, and these, with Lalo's *Namouna*, are the pinnacles of 19th century ballet-music. *Coppélia*'s narrative is no more unlikely than that of *Swan Lake* and deals with both the mysteries of alchemy and of happy marriage.

Coppélia's tragedy, as a work of art, is that it was born in Paris in 1870, just as the Franco-Prussian war was to sear French society, and at a time when French ballet was falling into decline. *Coppélia* was really saved for us in Imperial Russia, where it was honoured and completely re-choreographed. It is an odd fact that neither the Kirov nor the Bolshoi now really bothers with it, though the Kirov must own up to a repulsive version by Oleg Vinogradov which should be banned from the stage.

It was Ninette de Valois who brought *Coppélia* back to public recognition when she acquired the Imperial Russian version in 1933, and for decades it was one of the delights of the repertory – shades of Fonteyn and Pamela May, Nerina and Beriosova, and so many more enchanting girls, coming out on stage at curtain rise to curtsy and pout at the doll Coppélia on her balcony.

The happy news is that next season, returned to Covent Garden, the Royal Ballet will revive this de Valois staging, with its witty Osbert Lancaster designs. Any attempt at tinkering with it, and I and a heavy mob of ballet-lovers will come and take hostages.

The Ballets Russes of the 1930s also played *Coppélia* – Danilova, Baronova, Markova, Slavenska, its adored heroines, which indicates the sort of casting it needs – and it is as a by-blow of this tradition that Enrique Martinez made a version in 1968 for American Ballet Theatre, which also owed something to a production he had made in his native Cuba.

It is more boisterous than the Russian staging, and much more so than the pretty old Paris Opéra version which has unfortunately been abandoned, and it has more bravura about it than charm. But, as I saw at the weekend in Toulouse, it retains its appeal for a company ready to dash in to its dances and show off. This the Ballet du Capitole certainly did.

The staging is designed in bold primary colours and shapes by Bruno Schwengl. The usual peasant fripperies and old Galician architecture are banished, and the story suffers a bit, too, in the general briskness. (You don't care much about Swanilda). But the Toulouse dancers are indefatigable, and clearly love what they are called upon to do.

Marieke Simons skimmed merrily over the choreographic pitfalls she is set, and played Swanilda as a frightful minx – gentler feeling only surfaced in the final act – but she has a lively way with her. The role of Frantz is shadowy in any staging – a roving eye and a decent jump is all that is called for – and Minh Pham does his duty by it, and shows a clean technique.

Coppélius, the really meaty role for a man, can seem all comedy, but there are darker themes in the tale, and to his credit, Michael Rahn made him both zany and mysterious: the two great moments in Act 2, when Coppelius first thinks he has created life and then knows that he has been duped, were admirably done.

For the rest, flying peasant heels, a version of the ear of corn duet that is utterly unworthy – Balanchine once joked that it was the basis of all his choreography – and great good humour from every artist, made it a happy evening. And the score remains a marvel, no matter how many times one hears it.

THEATRE IN PARIS

Plight of the Indians

Worried by incidents of cruelty during the Spanish colonisation of South America, in 1550 the Papacy ordered an investigation to take place in the town of Valladolid. The inquiry focused on the continent's Indians, the victims of the excesses, could be said to be human at all. Key questions were devised to act as a test: were the Indians capable of interbreeding with Spaniards? Did they laugh at the antics of a European clown? This stern, strange debate acts as the centrepiece of Jean-Claude Carrière's compelling play at the Théâtre de l'Atelier, *La Controverse de Valladolid*.

The apparently forbidding confrontation between the philosopher Supulveda and a Dominican champion of the Indians, Bartolome de Las Casas, is forged into rivetting drama thanks to some brilliant intellectual exchanges and exceptional characterisation. With lessor acting, the play might have dragged. Superb as Supulveda, Lambert Wilson is all cerebral torment, brilliant to the point of perversity in his argument that Indians, "born slaves, unhappy without masters", were at best endowed with souls of lesser quality than Europeans.

Jacques Weber, as Las Casas, renders the emotional agony of the hapless Dominican with sobriety, describing tortures and massacre under the gaze of Bernard Verley as the serenely detached papal legate. The stage business contrived by director Jacques Lassalle creates all the more tension for being minimal. The legate, meanwhile, in twice tripping over a rickety step, raises the nearest this tragedy gets to a smile, literally tumbling down to the level of the wretched Indian family who have been shipped over to Spain for close and inhumane inspection.

Champion of the Indians: Jacques Weber in 'La Controverse de Valladolid'

No mere historical recreation; the Valladolid debate goes beyond colonialism to evoke the idea that we cannot apprehend any radical human or cultural difference without in some way modifying or destroying either it or ourselves. Supulveda believes God is not interested in Indians because they are less than human. Las Casas, who loves and admires them, remains dogma-bound to believe they require salvation through conversion to Christianity. It all ends with a twist as grim as it is simple. The legate concludes that Indians do indeed have souls: but that successful colonisation necessitates finding a labour force elsewhere – in Black Africa, for example.

By coincidence, mid 16th century Spain is on the bill in another Paris theatre. Starring France's leading male cinema actor Gérard Depardieu in his first stage role in 18 years, *Les portes du ciel* was trumpeted as the theatrical event of the year when it opened at the Théâtre de Paris. The first night of this first play by François Mitterrand's former political adviser Jacques Attali was dutifully attended by all major politicians. None of which of course makes it a good, or even a competent play.

The action of *Les portes du ciel* takes place on 19 September 1558, the last day in the life of Spanish Emperor Charles Quint, who spent his final 18 months in retreat in the monastery of Yuste. Our disbelief when confronted with barrel-chested Depardieu, chomping a chicken and clamouring for jam to go with it, as the embodiment of the frail Charles could possibly have been suspended were the actor's emotional range better assured. As it is, brusque gear changes between muttering and sporadic bellows express nothing more spiritual than chronic bad temper. Sprinkled with unmemorable aphorisms, the text does nothing to help. Attali's haste with history and ignorance of Catholicism lends the anti-Protestant Charles some bizarrely anti-clerical sentiments, among other theological nonsense. The plot, meanwhile, threads the story of the mysterious assassination of a cleric into the main theme of a powerful ruler facing death. But the latter is never developed. Having been Mitterrand's adviser is evidently not enough.

Nicholas Powell

WELSH NATIONAL OPERA PETER GRIMES

A diabolical view of Britten

Andrew Clark is not impressed by Peter Stein's new production

It was billed in advance as "the operatic event of the year". Welsh National Opera's recent successes have been such that we now expect every production to be a winner – most of all a Peter Stein *Peter Grimes*. When the result does not meet expectations, there's an understandable sense of let-down.

Stein is not solely responsible. WNO's music director, Carlo Rizzi, is so wide of the mark in his approach to Britten's idiom that it's hard to recognise the same orchestra which excelled in *Billy Budd* last season. But it was not for Rizzi's *Grimes* that everyone descended on Cardiff's New Theatre on Monday. We wanted to know what one of the great directors of our time, and a German to boot, would make of the greatest of all English operas. Aside from an illuminating programme note,. Stein made very little of it.

Stein's problem is that he has tried just about everything there is to try in the theatre, and when he tries to be simple again, it just doesn't work. He himself stands in the way of simplicity; he superimposes straightforward acting on his singers, and they react like puppets on a string. The performance refuses to take on a life of its own.

This *Grimes* is too manicured to be realistic, too matter-of-fact to develop a psychological dimension. Stein sees the objects on stage – the faithfully copied Aldeburgh boats, the late Victorian costumes, Peter's hut – as "quotations of realism in the midst of more or less abstract surfaces". He wants it every way. It's not only Peter who is diabolical; the Borough is diabolical, *everyone* is an outsider! So who is the protagonist?

Stein is, of course. Stein is the *real* outsider. We don't need an artless reconstruction of *Grimes*, we've moved on from that. But Stein "is at his exercise". This was always going to be a tougher assignment than *Otello*, *Falstaff* or *Pelléas*. Britten is not neutral territory – unlike those previous Stein/WNO conquests. Instead of removing *Grimes* to an abstract world, where he could explore the inner drama unfettered by English mimicry, Stein tries to beat the English at their own game.

There's nothing wrong with Stefan Mayer's set – simple charcoal surfaces, a backdrop of sea meeting sky – or Moidele Bickel's quaint costumes. I liked the apprentice's cowering reaction, like an abused dog, when Ellen first put an arm round him – it made Grimes's cruelty in the hut scene all the more believable. But there were no broken characters among Stein's gallery of villagers. The pub scene was neat, the hunt orderly. It was a bit like a painting purporting to be an exact copy of the original: *Werktreue* taken to a perverse extreme.

Instead of removing Grimes to an abstract world where he could explore the drama, Stein tries to beat the English at their own game

As Grimes, John Daszak metamorphosed diligently from poet to psychiatric case, without imposing himself on the role vocally or histrionically. Despite their concentrated efforts, Janice Watson's Ellen and Donald Maxwell's Balstrode were too anonymous to establish their relationship with Grimes. Even such experienced players as Ann Howard's Auntie struggled to cross the footlights.

These inhibited stage performances should have been leavened by some refinement in the pit – especially during the interludes, when the safety curtain was lowered. Unfortunately, Rizzi's conducting was anything but refined. He glossed over the jagged brass syncopations in the storm, treating it like an outburst of racy pseudo-Expressionism. The second interlude had a pristine glitter, the passacaglia was deafeningly shrill – and the choral ensembles sounded like a succession of noisy, self-conscious showpieces.

Inhibited: John Daszak and Janice Watson — Alastair Muir

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 18, 21

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 19, 21

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 20

CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Diego Rivera: Art and Revolution. Major retrospective of the Latin American painter and folk hero. Rivera was a pioneer of the muralist movement, and his work is unique in 20th century art. This show features 125 works and includes public and private loans from Europe, Japan and Mexico; to May 2

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 20

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Myung-Whun Chung in works by Rachmaninov, with piano soloist Jean-Yves Thibaudet; Feb 18
● London Symphony Orchestra and Chorus: conducted by Myung-Whun Chung in Mahler's Symphony No. 2, with soprano Andrea Dankova and alto Sara Mingardo; Feb 21

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Feb 17, 20, 23

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in the world premiere of John Adams' Naive and Sentimental Music. Programme also includes works by Haydn and Schumann. With cello soloist Heinrich Schiff; Feb 19, 20, 21

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Peter Maxwell Davies in the UK premiere of A Reel for Seven Fisherman, and by Vassily Sinaisky in works by Beethoven and Shostakovich, with piano soloist Lars Vogt; Feb 20
● Mikhail Pletnev: recital by the pianist of works by Chopin, Grieg and Schumann; Feb 17

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Ingo Metzmacher in works by Schubert and Henze; Feb 21, 22, 23
● Prague Symphony: conducted by Tomás Koutnik in works by Dvorák and Mendelssohn-Bartholdy, with violin soloist Pavel Sporcl; Feb 19
● Salzburg Mozart Orchestra: conducted by Hubert Soudant in works by Beethoven and Tchaikovsky, with piano soloist Valéry Afanassiev; Feb 20

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 17, 20, 23

NEWCASTLE

CONCERT
City Hall
Tel: 44-191-261 2606
Royal Liverpool Philharmonic Orchestra: conducted by Jun'ichi Hirokami in a programme of French music including Canteloube's Songs of the Auverge and Berlioz' Symphonie Fantastique, with mezzo soprano Della Jones; Feb 19

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph von Dohnányi in works by Donatoni, Bloch and Beethoven. With cello soloist Eric Picard; Feb 17, 18

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
● Natalia Gutman: morning recital by the cellist of works by Bach and Hindemith; Feb 21
● Orchestre National de France: conducted by Pinchas Steinberg in works by d'Indy, Saint-Saëns and Prokofiev, with piano soloist Jean-Philippe Collard; Feb 19

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 17

ROME

EXHIBITIONS
Galleria Nazionale d'Arte Moderna
Tel: 39-06-322 981
Picasso 1937-1953: The Italian Years. Around 70 works, including paintings, sculptures, ceramics and drawings, from the period between 1937, when Guernica was shown at the Exposition Universelle in Paris, and 1953, when Picasso himself organised major exhibitions in Milan and Rome. Includes loans from the Picasso Museum in Paris; to Mar 14

Palazzo delle Esposizioni
Tel: 39-06-474 5903
Algardi: The Other Face of the Baroque. First major exhibition devoted to Bernini's great rival, the Bolognese artist Alessandro Algardi. Includes 66 sculptures in bronze, terracotta, marble and silver, and 47 drawings. With major loans from Europe and the US; to Apr 30

Palazzo Venezia
Tel: 39-06-841 2312
'700 Veneziano: Capolavori da Ca' Rezzonico. Display of 18th century Venetian art, lent by the Venetian museum to the Palazzo Venezia, which once housed the city's ambassador to Rome. Includes works by Canaletto, Guardi, Longhi and Carlevarijs, and Tiepolo's fresco cycle made for his villa at Zianigo; to Feb 18

THE HAGUE

EXHIBITION
Gemeentemuseum
Tel: 31-70-3388 1111
Silver from the time of the United East India Company (VOC): display of silver manufactured in the 17th and 18th centuries in former Batavia, by Dutch and other European silversmiths. Works from the collection are supplemented with important private loans; to Mar 21

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● NHK Symphony Orchestra: conducted by Eugeny Svetlanov in works by Prokofiev and Beethoven, with piano soloist Nikolai Petrov; Feb 17, 18
● Yomiuri Nippon Symphony Orchestra: conducted by Rafael Frübeck de Burgos in works by Rodrigo and Falla, with guitar soloist Kazuhito Yamashita; Feb 19

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● ***Business/Market Reports:***
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

L'Etat, c'est quoi?

France triumphed in launching the euro. Now that victory is transforming the French state

The euro is the culmination of one and a half decades of French planning. With its arrival, France has tamed Germany, confounded the UK, launched a rival to the dollar and thrown the wicked currency traders out of the European temple. *C'est magnifique*. But will the French enjoy the fruits of their victory?

In 1983, the failure of "reflation in one country" persuaded the Socialist government of François Mitterrand to abandon what its members saw as the chimera of national independence. Among the country's intellectual and bureaucratic elite, doubt was then at an end. Whatever the question, Europe was always to be the answer.

Only there might France gain freedom from the tyranny of foreign exchange markets and the dominance of the US. But, first, France had to persuade its powerful German neighbour to share European monetary hegemony. There was only one way to achieve this end: to become visibly more German than the Germans. This was a challenge the French took up with great single-mindedness

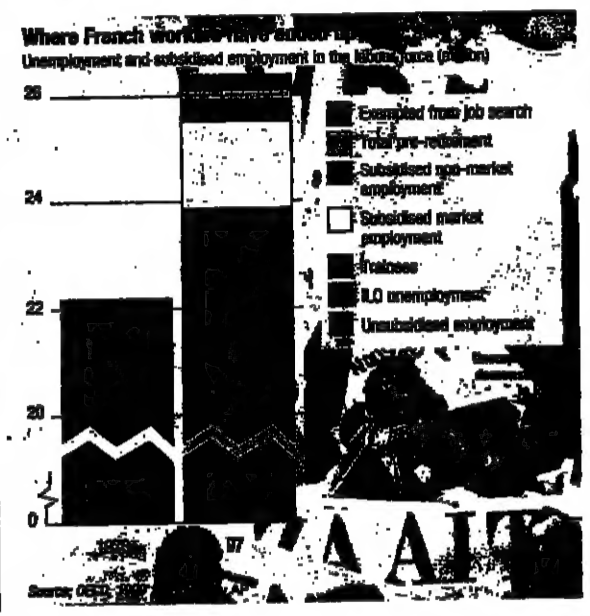
A necessary condition for success had to be the embrace of low inflation. Fortunately, the elite had already concluded that inflation was highly damaging for France. Far better, it agreed, to enjoy low inflation and a robust currency.

Simultaneously, it launched a long march through the European institutions. The appointment of Jacques Delors to head the European Commission in 1985, the Single European Act, the Delors committee report of 1989 on economic and monetary union and the Maastricht treaty were stages on the journey.

Inflation was reduced, from 11.7 per cent in 1982 to 2.8 per cent in 1990 and 0.3 per cent in the year to December 1998. Today, France is inflation-free. But this war has been a hard one – and was made far more difficult by the exchange rate upheavals that followed German unification. It may have been valiant, but was it also good economic policy? On this, the performance of the real economy has to raise doubts.

In the 1960s French real economic performance had been scintillating, with growth averaging 5¼ per cent and unemployment at less than 2 per cent. Since those halcyon days, deterioration has been virtually continuous: average growth fell to 2¼ per cent in the 1980s and a miserable 1¼ per cent in the 1990s. As growth fell, so unemployment rose, from an average of 4 per cent of the labour force in the 1970s, to 9 per cent in the 1980s and more than 11 per cent in the 1990s.

Even these figures, bad though they are, fail to give the full dismal picture. The chart, taken from the latest survey of France from the Organisation for Economic Co-operation and Development, shows that the number of people in unsubsidised employment fell, from 21.4m in 1973 to 20.3m in 1997. This happened even though the labour force rose from 22.1m to 26.4m. Over this period, conventionally measured unemployment rose to 3.2m (12.1 per cent of the labour force). But there was also a rise in the number of people employed in a host of subsidised job-creation schemes to 2.9m (10.9 per cent of the labour force). Subsidising employment can make sense. But it is hugely disturbing when the proportion of the labour force unable to earn its keep, unaided, is more than 23 per cent.



This calamity of slow growth and high open and disguised unemployment cannot be explained by the *franc fort* alone. On the contrary, those who argue that France has suffered from a host of rigidities in product, capital and labour markets are unquestionably correct. Nor should one ignore the deadening impact of a state whose total outlays were 54 per cent of gross domestic product in 1998, the highest in the group of seven leading industrial countries.

Yet structural rigidities alone are insufficient to explain the failure of the French economy to generate employment over the long term. A more plausible explanation is that it was only the pressure from a persistently disinflationary macro-economic policy upon an overly rigid economic system that did so much damage. These were two blades of a pair of scissors. The result was that cyclical unemployment became long term joblessness.

The intriguing question is whether this great geo-political victory, won at such high economic cost, will prove to be a Pyrrhic one. The answer depends, above all, on the performance of the French economy in coming years. Will it be able to exploit the opportunity offered by low inflation and a stable currency? Or is it still constrained by the many rigidities that made disinflation so costly?

There is some – albeit constrained – reason for optimism, partly because of where the economy now is and partly because of some longer-term policy improvements.

Under the first heading come: shares of wages in value added that are lower than at any time in the past three decades; wage moderation, with an average nominal increase in wages of 2.6 per cent, over the past five years, against 4.2 per cent in Germany; a strong competitive position, suggested by a current account surplus of some 2½ per cent of GDP; and a reasonably sound fiscal position, with a general government structural fiscal deficit of 2.1 per cent of GDP in 1998.

Since the European Central Bank is in a position to follow a relatively easy monetary policy, there is reason to expect a continued cyclical upswing, after growth of 2.3 per cent in 1997 and around 3 per cent in 1998. The OECD argues, depressingly, that the structural rate of unemployment is 10 per cent. Yet, with unemployment now at 11.5 per cent, this still leaves some room for above-trend growth. If the ECB were to promote reasonable growth in aggregate demand (admittedly a questionable proposition, right now), France might enjoy two or three more years of declining unemployment.

Structural reforms are also under way. This Socialist government may be loath to admit it, but it is busily privatising (or, as it says, "capital-opening") important components of the still large state sector. And France has been forced by the European Union to accept, willy nilly, some liberalisation of telecommunications, electricity and gas. The advent of the euro will accelerate the opening of the financial system. It will also demand liberalisation of the labour market – the challenge that the French government finds most difficult to tackle. It has made some improvements here, but must go much further.

The struggle of the past 15 years looks depressingly like the economic equivalent of the first world war. But France is in a good position to exploit its hard-won victory. Paradoxically, it will enjoy what it has only by giving up what it was. It is not dirigiste France that will succeed, but the more open, internationally integrated economy that its choice of "more Europe" entailed.

How far does the government realise this? Up to a point, is the answer, as the nonsense of the 35-hour work week demonstrates. France has chosen not just monetary stability, but economic liberalisation. This is simply the only way to make a single currency and an integrated Europe work. The Anglo-Saxons may yet have the last laugh.

Martin.Wolf@ft.com

LETTERS TO THE EDITOR

Public is loser in anti-GM hysteria

From Mr Mark Cantley.

Sir, Your article on genetically modified crops, "An uncontrolled experiment" (February 13-14), was typical of much recent UK reportage: strong on concerns, weak on details and disregarding of the quality of evidence on which mainstream science and advisory committees are giving their positive recommendations. But it rewrote history in claiming that 10 years ago mainstream scientists dismissed the risks of BSE infecting people as negligible and attacked maverick scientists as irresponsible.

The European Commission from 1988-91 financed a study, through the Organisation for Economic Co-operation and Development, of "Biotechnology, Agriculture and Food". The chapter on Animal Health, drafted by the late Sir Barry Cross, then director of the UK Agriculture & Food Research Council's Institute for Animal Physiology and Genetics, discusses the possible use of genetic engineering to get rid of susceptibilities to diseases, such as scrapie in sheep and similar spongiform encephalopathies in other species. It notes "fears that the agent responsible for BSE may be transmissible to man", and adds that "new prognostic procedures are urgently needed".

This is one of several examples where "mainstream scientists" were alert, attentive and swift in their ability to identify the emergence of serious and intractable problems, such as BSE or Aids, and to distinguish them from pseudo-problems, such as those alleged to arise from making modern molecular biology available to plant breeders: a development enabling them to pursue with greater precision and speed their traditional goals of performance, quality and competitiveness.

More incisive science journalism might address the question of who gains from the current hysterical "anti-GM" campaigning; insofar as attention and resources have, as a result, to be diverted from real problems and beneficial innovation and investment are inhibited, I fear that the public interest is the loser.

Mark Cantley,
adviser to the European Commission,
DG XII: Science, Research & Development,
directorate for life sciences and technologies,
Brussels, Belgium

Plan for a City 'voice' was quietly stifled

From Mr Clive Sinclair-Poulton.

Sir, With reference to "The future of the City" (February 16): in the early 1990s I was, along with stockbrokers, bankers, accountants, lawyers and money managers, a member of a Securities Institute committee. Our remit was to promote the institute both to members and to the wider financial services community.

Soon, however, the majority on the committee wanted to expand our role to allow the Institute to act as a vocal promoter of the City, its strengths and advantages. The majority of members who responded to an institute survey supported this enhanced role.

The members of the committee were painfully aware that, while France and Germany each had an organised and articulate campaign to preach the merits of Paris and Frankfurt, the City of London did not.

How did the Securities Institute respond to this need? It closed down the committee.

Clive Sinclair-Poulton,
Whale Barn,
Knapwell,
Cambs CB3 8NS, UK

Baffling stubbornness over duty-free extension

From Ms Corinna Saric.

Sir, I always wondered why there was so much Euroscepticism in the UK. Now I understand. Fifteen democratically elected heads of governments unanimously asked the European Commission to look again into the possibility of an extension of the existent duty-free regime. Brussels simply said "no". Whether it is 140,000 jobs that will be lost or only half that number is not worth worrying about – the European Employment Pact will lose credibility if this job disaster occurs.

To create one new job costs around €70,000. We are talking of at least €5bn of taxpayers' money if Brussels wants to compensate for the employment consequences of abolishing duty-free.

One can only speculate why the Commission is keen to underpin its stubbornness through hints at a possible legal challenge by retailers. Duty-free sales are additional. They will not be made up for in the high street if the duty-free advantage is gone. So there is no damage to retailers. No damage: no reason to go to court.

Corinna Saric,
Ludwigstrasse 4,
63773 Goldbach, Germany

Number One Southwark Bridge, London SE1 9HL

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Swiss shadows over German banks

John Authers explains the implication of parallels between Nazi-era claims on Swiss banks and similar claims on German ones

When German banks and industrial companies sat down yesterday with Gerhard Schröder, the chancellor, to hammer out the details of a fund for Holocaust victims, they knew they were standing in the long shadow cast by the Swiss banks.

A range of German manufacturers face demands for restitution for slave and forced labourers who worked for them during the war, often in concentration camps. German banks face additional demands over their role handling stolen assets, and in the forced confiscation of Jewish-owned businesses.

There are some differences with the Swiss case. Most importantly, Germany has already paid heavy reparations, and the dispute is now mostly over victims who had missed out on previous efforts at restitution.

But the parallels between the two campaigns are more striking than their differences. A year ago, Union Bank of Switzerland and Swiss Bank Corporation saw their merger delayed by New York regulators, who cleared the merger only after they had been assured by Jewish negotiators that a settlement had been agreed. Now the same threat looms over Deutsche Bank's planned $9.8bn acquisition of Bankers Trust.

Alan Hevesi, the city comptroller of New York, who co-ordinated the sanctions campaign against the Swiss banks,
has called for the Deutsche-Bankers Trust merger to be delayed until a settlement has been reached. Although he has no direct say in the issue, he has considerable influence.

Stuart Eizenstat, the undersecretary of state, who came close to brokering a settlement over the Swiss banks before the talks broke down, has again been reluctantly drawn into the arena. Mr Eizenstat hosted talks last week in Washington which brought together Bodo Hombach, Mr Schröder's chief of staff, and Rolf Breuer, the chairman of Deutsche Bank, with the array of lawyers and Jewish community groups which now accuse them.

Last, the class actions suits being brought against German companies are being led by the same lawyers who sued the Swiss banks, people such as Mel Weiss, a successful Wall Street litigator, Michael Hausfeld, a Washington lawyer best known for his role in suing Texaco over alleged employment discrimination and Edward Fagan, who brought the first class action against the Swiss banks in late 1996.

The question is: what do these parallels imply for the likely course of the case against the German companies?
The answer is that, if the Swiss experience is anything to go by, the German companies will find it difficult to negotiate a settlement which satisfies all the factions in the US.

The German hope is to negotiate a deal between the US and German governments which will be accepted as a settlement by the US courts.

This is what the Swiss had originally hoped for. Edward Korman, the Brooklyn judge who heard the lawsuit against the Swiss banks, made clear that he thought the case should be settled out of court. The New York-based World Jewish Congress, which launched the campaign against the Swiss banks in the first place, had initially not contemplated a lawsuit.

But the fact that the Swiss settlement was ultimately brokered in private session in Mr Korman's court tells you how hard it is to avoid the courts in such cases. This has increased speculation that the US courts will provide a venue for settling with German banks. That in turns implies it will be difficult for the Germans to avoid class action suits.

The difficulty lies in persuading the plaintiffs' lawyers to go along with any deal. Israel Singer, the secretary-general of World Jewish Congress, greeted the German government's plan warmly last week, describing the proposed fund for Holocaust victims as a "breakthrough". But the lawyers may well not go along with this endorsement, and hold out for better terms, just as they did in the Swiss case.

So, while lawyers say the German plan might be the basis for a settlement, they seem determined that each company should be individually liable for the specific offences they committed. Without involvement by all the German companies they believe to be responsible, and a clear methodology for apportioning the amount which each company pays, they are unlikely to be satisfied.

All those are reasons for doubting that the German case can be settled any more amicably than the Swiss one was. Against that, what reasons are there for optimism? Ultimately, the main one derives from the greatest difference with the Swiss case – the involvement of the German government.

The Swiss government refused to become involved in the Swiss banks' case, even though the Swiss National (central) Bank had itself been sued in the US. As a result, UBS and Credit Suisse felt constrained when negotiating by the fear of being criticised by their own government. This, at least, is a constraint that should be absent for the German companies.

In addition, nobody on either side wants a repeat of the acrimony that surrounded the Swiss banks' settlement. Elan Steinberg, the WJC's executive director, puts it succinctly: "There's one thing all the European companies we've spoken to agree on. They all say they don't want what happened to the Swiss banks to happen to them." The trouble is, it may be hard to avoid. While most people would no doubt like a clean settlement, a great deal of argument will have to be gone through before they arrive at one.

PERSONAL VIEW DAVID HALE

US cycle theory

The world's largest economy can keep moving forward, not fall over, thanks to changes in the composition of equity markets and America's role as world consumer of last resort

If the current US business cycle can continue for another 12 months, it will break the record for longevity established by the business expansion of the 1960s. That lasted 106 months while the average length for a business cycle before the 1990s was about 50 months. The current expansion is now 95 months old.

In the modern era, the typical cause of a business cycle ending has been a surge in the rate of inflation, prompting the Federal Reserve to increase interest rates. When the US unemployment rate dropped below 5.0 per cent and wages began to accelerate in mid-1997, there was widespread concern that the Fed would have to tighten monetary policy to damp growth. But the onset of the Asian financial crisis transformed the US business cycle. It depressed global commodity prices and caused the world's surplus liquidity to concentrate in the US financial markets, promoting a further surge in equity prices which boosted domestic consumption.

Retail sales, homebuilding and business spending on the Y2K problem continue to enjoy such strong momentum that they should be able to sustain further steady growth of output during the first half of 1999. The information technology sector now represents 4.1 per cent of US gross domestic product compared to only about 2.5 per cent in other OECD countries and it has accounted for over one-fourth of the output growth in the US economy since 1992. There could also be a surge of inventory building during the final months of 1999 as firms prepare for potential production bottlenecks resulting from the Y2K problem.

Since the major risk in the global economy is deflation rather than inflation, American forecasters are confident that US monetary policy will retain an accommodative bias. Their concerns now centre on the vulnerability of consumer spending to stock market volatility and the country's need for large capital inflows to finance its expanding current account deficit.

The stock market now plays a greater role in the US economy than ever before. Its capitalisation has risen to nearly 140 per cent of GDP compared to a 60-year moving average of 49 per cent. The decline in the cost of equity capital has helped fuel the growth of the small business sector through a record number of initial public offerings while encouraging large gains in business fixed investment. The mutual fund industry now has larger assets than the banking system and over half of those assets are in equity funds. There are about 35m Americans who own equities directly, while another 45m-50m have exposure through defined contribution pension plans which invest in the market through mutual funds. The stock market has produced such large capital gains for the household sector that personal savings have declined to a negative level for time first time since 1933. The surge in capital gains tax receipts is also producing a federal budget surplus for the first time since the 1960s and could cause the ratio of federal debt to GDP to plunge back to the 20-30 per cent range from over 50 per cent in the early 1990s if it can be sustained.

The Clinton administration wants to take advantage of the budget surplus by investing a portion of the social security trust fund in the equity market and introducing supplemental private retirement accounts. Such a development could help sustain both the stock market boom and the budget surplus.

As a result of the collapse of the household savings rate, the US has a large current account deficit despite the government budget surplus, but the stock market boom is helping to finance the external deficit as well. In the first half of 1998, foreign investors purchased a record $82bn of US equities compared to numbers typically in the $10-20bn range during the first half of the 1990s. In fact, the US is developing a new balance of payments equilibrium in which the household sector is financing both consumption and the current account deficit by selling richly priced corporate equities to foreign investors.

This new equilibrium is a natural by-product of tax changes enacted during the 1990s. The Clinton administration encouraged investors to focus upon capital gains-oriented investments, such as houses and equities, by pushing up marginal income tax rates on wages, interest and dividends while taxing capital gains at much lower rates. But the decline in the household savings rate is creating the same vulnerability for the US capital account as did the large budget deficits of the 1980s. If the household savings rate continues to erode in order to sustain high levels of consumption, the current account deficit will remain above 3.0 per cent of GDP and cause America's net stock of external debt to expand from 14.0 per cent of GDP during the mid-1990s to over 20 per cent in the year 2000.

Technology companies now account for more than 15 per cent of the market capitalisation

Puchasing power: the household sector is financing both consumption and the current account deficit Katz

Can the equity market continue to encourage further declines in the household savings rate and continued financing for the current account deficit? Its performance will depend upon how investors perceive the trade-offs that now loom between negative factors, such as falling corporate profits, and positive factors, such as falling interest rates and the emergence of technology as the dominant investment concept.

During the 1990s, the US equity market has produced a total return of 18.4 per cent a year, with about 54 per cent of the gain coming from expanded price/earnings multiples and 46 per cent from profit growth. As it now appears that corporate profits will decline slightly during 1998 and 1999, any further large gains in the market would have to come from multiple expansion or a recovery in small companies which have lagged badly during the past year and have p/e multiples of only 10-15 compared with 27 for the Dow Jones Industrial Average.

There have been significant changes in the composition of the US equity market which suggest that it may deserve a premium valuation compared with the 1960s. Technology companies now account for more than 15 per cent of the market capitalisation, compared with only 5.5 per cent in 1964. The share of cyclical sectors, such as basic materials and durable goods, by contrast, has shrunk from nearly 27.0 per cent in 1964 to only 6.6 per cent in 1998. The technology sector is also constantly producing new concepts to excite investors. The internet, for example, has produced such a frenzy that its four leading companies have a market capitalisation of over $150bn, compared with practically nothing in 1995. America Online has a larger market capitalisation than the whole American transportation industry (railways, trucking & airlines).

In 1995, Alan Greenspan, chairman of the Federal Reserve, warned against irrational exuberance in the US equity market while many pundits now fear the emergence of a bubble economy. But the reality is that both the US and the world economy now depend on a robust US equity market to sustain America's role as the world economy's spender of last resort. As a result, central banks are likely to pursue a "Dow Jones standard" in the conduct of monetary policy during 1999 in order to sustain steady growth of US consumer spending until the preconditions can be established for an economic recovery in the developing countries and Japan.

The author is chief global economist for Zurich Financial Services, Chicago

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday February 17 1999

Seeking peace in Turkey

The bloody civil war between Turkey and its ethnic Kurdish minority was brought to Europe with a vengeance yesterday. Militant Kurds occupied embassies and consulates in cities from London to Moscow, and threatened to burn themselves in protest at the arrest in Turkey of their leader, Abdullah Ocalan. He had tried and failed for four months to find asylum elsewhere. It was a blunt reminder that no country can insulate itself against the conflict in another land.

Mr Ocalan is not a nice man. He is wanted on charges of murder and terrorism not merely in Turkey, but also in Germany. His PKK movement is guilty of atrocities, as are the Turkish soldiers it is fighting. But his fellow Kurds have a genuine grievance, having been denied recognition of their national and cultural identity for decades in Turkey. With 25m people of Kurdish origin living there, and in neighbouring Iran, Iraq, Syria and the former Soviet Union, they are the world's largest nation without a country of their own.

The PKK leader's extraordinary odyssey in search of asylum has exposed the European Union's failure to follow a coherent policy towards Turkey and its civil war. Germany failed signally to pursue the warrants it had issued for his arrest, out of understandable, but misguided, fear of ethnic disturbances. Most of the rest of the European Union members sought to distance themselves from the whole affair.

The Italian government, on whose territory the PKK leader was detained, contemplated an attempt to get peace talks going between Mr Ocalan and the Turkish government. It backed down when Turkey's total opposition became clear. That may well prove to have been a missed opportunity. But in present circumstances, during a bloody civil war in which an estimated 29,000 people have died, Ankara flatly rejects any accommodation with the PKK and its leadership.

Now the Turkish government has got what it wants, and its most wanted man is under arrest. It is essential that the legal process against him is carried out properly, and in complete openness. There are genuine doubts in the EU about Turkey's capacity to offer him a fair trial, given the public fury against him.

But Turkey can do more. This is precisely the moment when strenuous efforts should be made to start a peace process. The PKK may not be an acceptable partner in negotiations. But the Kurds have other parties not directly linked to the violence. They should be involved in peace talks. There are also real gestures of reconciliation which can be made, including legalisation of education in the Kurdish language. That is what the EU should be promoting.

Euro banking

A single currency is not the same as a single payments area. This simple truth lies behind the raids by the European Commission on eight banks in Germany, France, Italy and Spain, in an investigation into bank charges for exchanging the notes and coins of euro members.

Karel Van Miert, the antitrust Commissioner, is investigating whether the banks have colluded to set charges for exchanging one version of the euro into another.

Behind the raids lies a serious issue. In the days when euro-zone members had independent currencies, many different costs for changing money between them were hidden in the exchange-rate spread.

Into this elastic margin were bundled the cost of returning foreign notes, the cost of linking to foreign settlement systems, the cost of carrying an inventory of foreign notes and the cost of managing exchange-rate risk. Only the last of these costs is eliminated by economic and monetary union.

Banks must now use, by law, the official single-point exchange rates for converting one euro member currency to another. This removes the cost of managing exchange-rate risk. But it forces banks to charge explicitly for cost elements that were previously concealed. Customers do not like this.

If banks are colluding to set these charges, they are indeed liable to European competition law. If they have failed, for example, to adjust credit-card software to convert euro member currencies at the official rate, they are similarly vulnerable.

But these are essentially side issues. Much more important is the creation within the euro-zone of a single payments area, in which inter-bank transfers are made between countries at the same extremely low costs as apply to national transfers. The Commission is planning to set out plans for encouraging this in the next few months.

It would be better if Europe's banks acted first, rendering official initiatives unnecessary. So far, however, they have made little progress. They have rushed to create capacity for the sort of cross-border transfers that suit their own business – high-value transfers needed to pursue wholesale banking activities. But they have done little to satisfy their own captive customers, those individuals and small businesses seeking to treat the euro-zone as their new home market.

Europe's bankers may feel aggrieved at being singled out for publicity-grabbing raids. They will argue – correctly – that handling foreign banknotes is not cost free. But until they seize the opportunities of cross-border small payments, they will remain open to criticism.

Jubilee 2000

When a plea for debt relief becomes the common cause of a coalition that embraces both the Pope and the pop world, creditors should take notice. The Jubilee 2000 campaign for the write-off of what it calls the "unpayable debt" of the world's poorest countries may not be achievable in the year of the millennium. But, just like Band Aid 15 years ago, it should prick the conscience of the world's rich nations.

The case for appropriate and radical action is compelling. Debt servicing imposes an impossible burden, particularly in Africa. Mozambique spends more on repaying debt than it spends on health: this is a country where one in five children die before the age of five. In Tanzania, payments consume more than the entire primary school budget.

The developed world has set targets for universal primary education, access to basic health care and halving the numbers in poverty by 2015. Without substantial help, these goals are impossible. It cannot be assumed, however, that the money that currently goes to creditors will be spent where it is most needed. It could just as well be wasted.

Jubilee 2000 argues that each country should be addressed on a case-by-case basis, and that independent arbitration is needed to decide on suitable terms and what constitutes "unpayable" debt. But when put into practice, they would soon discover that the complexity of the problems posed by the world's poorest countries mean that a millennium solution is unrealistic.

For all the reforms implemented in Africa, it is hard to find a country whose government does not arouse grave concerns. Nigeria urgently needs debt relief. But until it tackles the corruption that is at the core of its crisis, this would be counter-productive. As long as President Mugabe keeps his troops in the Congo, and abuses human rights at home, Zimbabwe should not qualify. A debt write-off for Sudan could fund the country's civil war, rather than easing the plight of the poor.

The Jubilee 2000 campaign nevertheless serves a valuable purpose. The pressure and publicity it has generated, together with a supportive British government and a change of heart in Germany, is bringing a comprehensive solution closer. The World Bank Highly Indebted Poor Country initiative is finally moving towards a shorter qualifying period and more generous terms.

But the essential principles must still apply. This means that debtor counties must demonstrate a genuine commitment to economic reform, respect for good governance, transparency of national accounts, and external monitoring to ensure that debt relief is well spent. Conditionality must go hand in hand with generosity.

Survival of the biggest

In a world where big is beautiful, small quoted companies are suffering from neglect. **Tony Jackson** examines what they can do to regain the attention of investors

These are chilly times for the old and the undersized on world stock markets. High-tech start-up companies may rocket and soar, but the puny veterans of the markets – housebuilders, engineers and the like – have suffered a decade of deepening neglect, to the point where directors have begun to mutter about the point of being public at all.

Small, in this context, does not mean scarce. In the UK, the usual definition of small companies is the bottom 10 per cent of the market by value. There are around 2,000 quoted companies in the UK. The small companies sector, thus defined, takes in close to 1,300 of them.

Over the past 10 years, according to the London Business School, those companies have underperformed the whole UK market by a cumulatively dreadful 6 per cent a year.

As a result, many find their equity a worthless currency: no good for raising funds, or even for taking each other over.

It is worth recalling what the stock market is there for. Its primary purpose is to channel savings to companies which can put them to better use than the savers can themselves.

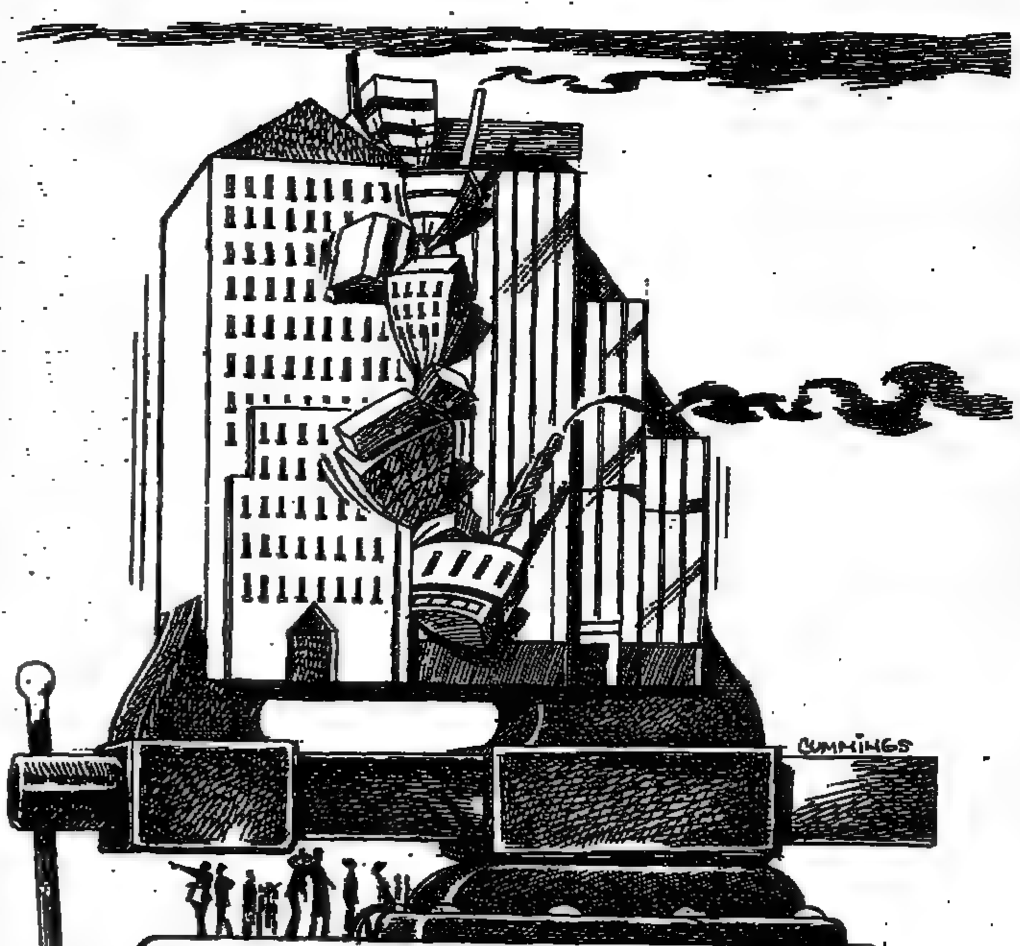
Its secondary use is as a store of value, in which savers can park their money until such time as they need it. On both grounds, the grumbling directors might seem to have a point: as far as their companies are concerned, the market is failing in its object.

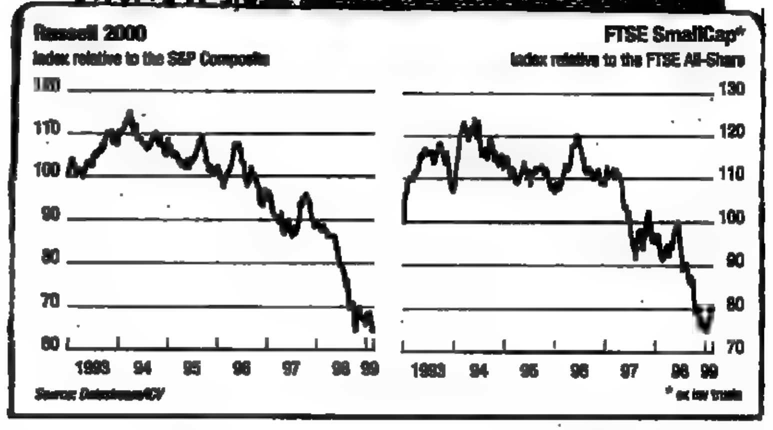
What has caused this state of affairs? There are two possible reasons, which need not be mutually exclusive. First, the markets have come to be dominated by a handful of giant investing institutions, which may now be so big that analysing small companies and scrutinising their corporate governance is no longer worth their while.

Second, the principle of winner takes all, familiar in the case of high-flying chief executives, sports stars and other individuals, may also apply to companies. Could this mean that small, local companies are simply being squeezed out of global markets?

The first argument is appealing, especially to companies themselves. But it has several snags. First, the concentration of investor power in the hands of fewer institutions has been going on for decades. The relative decline of small companies has not.

According to Professor Paul Marsh of the London Business School, small companies in the UK outperformed the equity market by some 6 per cent a year from 1955 – where his research starts – to the end of the 1980s. In the US, the corresponding figure was 4-5 per cent, going back to the end of the first world war.





On both sides of the Atlantic, this trend has been savagely reversed. In part, this was to be expected. In the course of the 1980s, academic research in the US and UK drew attention to the outperformance of small stocks. The institutions took notice, and formed small company funds to exploit the anomaly. And, as is usual in markets, exploiting the anomaly made it go away.

But disappearance is one thing, reversal another. The relative decline of small stocks began 10 years ago in the UK, and even earlier in the US.

If this were the result of institutional neglect, that would create an opportunity for someone else. However, market inefficiency on such a scale, and over such a period, is simply not plausible.

This throws us on to the second hypothesis: that small companies are simply falling behind in the real world of the market place.

There is one striking piece of evidence for this. According to Prof Marsh's research, UK small companies increased their dividends at double the rate of the rest of the market over the period from 1955 to the end of the 1980s. However, in the 1990s, their dividend increases have fallen behind.

The timing scarcely seems coincidental. A decade ago the Berlin Wall came down. Then came the European single market. All the while, information technology was learning how to turn the new global market into commercial reality.

These were developments which small companies were not equipped to exploit. They were mostly local, and typically not in the industries – telecoms, banks, pharmaceuticals – best-placed to gain from the new world order.

Indeed, the size effect has come to apply throughout the market. Within the FT-SE100 index of the UK's largest companies, the bottom 10 per cent by size have performed worse than the next 10 per cent, and so on upwards. As size has pushed up the share price, so shares have been used to fund amalgamation. BP Amoco on its own has a value nearly equal to the entire UK small companies sector.

How should small companies respond to this? Being quoted, after all, has its costs: complying with listings requirements, wrestling with fund managers, pandering to analysts. Suppose those companies which have failed to break the size barrier simply quit the market: what effect would this have on the economy?

Probably beneficial, is the slightly depressing answer. If companies go private, they assume higher levels of debt, which in turn forces them into greater operating efficiencies.

Alternatively, small quoted companies can get taken over. In that case, they become part of larger entities which are properly scrutinised by the investing institutions. They are thereby forced to confront the new-found doctrine of shareholder value, which has only had a limited impact on the small company sector to date.

More generally, the business is turned over to those who have a record of success, and are therefore likely to make a better fist of it. And in the end, this is the nub of the argument.

It is tempting for small companies to treat their size as an excuse. But ultimately companies are big because they are good, not the other way round. For smaller fry, there may be no escaping the biblical parable of the talents: unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath.

Unloved, undervalued

A stock market listing has proved to be a mixed blessing for Densitron, a small electronics business, says **Peter Marsh**

"I have yet to meet a stock market analyst who fully understands what we do," Clifford Hardcastle, chairman and chief executive of Densitron, laments.

Mr Hardcastle founded his electronics business in Biggin Hill, Kent, in 1972 and floated it on the London stock exchange in 1986. For the past three years, Densitron's shares have underperformed the market by 80 per cent; its shares are now trading at only slightly above their levels of six years ago. Mr Hardcastle has only one word to describe the recent performance of his company's share price: "awful".

Yet, on the face of it, little in its market performance seems to justify this poor outcome: its revenues are stable and it has retained its position as one of Europe's top five producers in its chosen field of specialist computer displays.

Densitron's plight is similar to that of many other small UK manufacturing businesses, which have been hit by depressed trading conditions and a general lack of interest from investors.

To this, add the complexity of understanding what Densitron is about. It is a hybrid company, part manufacturer, part service provider. It creates specialised electronic parts and computer displays, often custom-built for blue-chip concerns such as ABB, the Swiss-Swedish engineering group, IBM of the US and Nokia of Finland. As a result, 90 per cent of its annual sales of about £30m are made outside the UK.

Its 350 employees are also scattered around the world, with one-third of the workers in Taiwan and design offices in Paris, Los Angeles, Tokyo, Sydney and Helsinki. The company's cosmopolitan flavour (unfamiliar for a UK engineering group) is heightened by the fact that it is one of the few British businesses to have a Japanese president: Shigemi Degawa, a long-time associate of Mr Hardcastle.

It is impossible to tell whether the market is mistaken in its valuation of Densitron, since there is no way of putting a rival value on the company. Certainly, its last financial results, for the six months to June 30 1998, disappointed the City. Pre-tax profits were unchanged from the previous year (at just over £1m). This, Mr Hardcastle says, was the result of weak worldwide demand and the strong pound – a bugbear for many UK-based engineering businesses.

Still, Mr Hardcastle, who owns 29 per cent of the company's shares, does not regret the decision to go public. The status of a quoted company, he says, "has made it easier for us to do business more sensibly with other companies around the world". It has also enabled him to bring in other executives to help him run the company (other directors own a 31 per cent of it). Mr Hardcastle, who is 64, plans to stand down as chief executive in the next two years.

More positively, Densitron says it has not suffered from another big problem affecting small companies: attracting new talent.

Mr Hardcastle was invited to Downing Street on Monday, along with other industrialists and education chiefs, to discuss training programmes with Tony Blair, the prime minister. He may be out of favour with investors, but as far as training is concerned, Mr Hardcastle believes he has got it right.

OBSERVER

Wiping the Slate clean

Slate, Microsoft's online mag that caused a hullabaloo when it added a subscription charge a year ago, has changed its mind.

From now on, Slate is free – which may be a sign paid-for publishing on the internet doesn't really work. But at least editor Michael Kinsley is honest about the change as the following extracts from the entertaining online Q & A show:

"Q: Well, duh! Everybody said you can't charge for content on the internet. Information wants to be free! Unless it's about sex or stocks. But oh no, you knew better... Don't you feel like jerks?

"A: Not really... Maybe a bit...

"Q: What does Bill [Gates] have to say about this?

"A: His initial reaction was not encouraging. He turned to his guard dogs and said: 'Neukom! Herbold! Kill!' [Then he calmed down.] 'OK,' he said, turning to his canine physiotherapist, 'Ballmer, call off the dogs. Give them some print magazine to eat instead. They just love the Economist.'" Neukom, Herbold and Ballmer are three of Microsoft's top managers. What they think about Slate isn't recorded.

Holy hi-tech

Jerusalem, according to its feisty mayor Ehud Olmert, has overtaken Tel Aviv as the place to be when it comes to technological investment. That might come as something of a surprise to those more used to identifying the holy city with the sort of demonstration carried out last weekend by more than 250,000 ultra-orthodox Jews.

But Olmert sees only opportunity in religious fervour. A chance meeting in an Amsterdam hotel with Paul Baan – one of the two brothers who founded the Baan software group and a member of the "Christians for Israel" group – gave Olmert an idea. He proposed a scheme for the ultra-orthodox in both the Christian and Jewish communities that would help solve Israel's shortage of technological manpower.

"I saw no reason why their beliefs and the new technology shouldn't exist side-by-side," Olmert explains. In particular, he reckons women cut off from elements of modern society by religious dogma could benefit. So the first 50 of maybe 500 people from different ends of the religious spectrum are now being trained on computers and in telecoms. Olmert's prize? He gets 5 per cent of any recruitment fees – to be used for the benefit of the city.

Moral Milanese

The Party of European Socialists has chosen an odd venue to hold its fourth congress next month.

Milan offers the perfect setting for a big convention: one of the largest trade fair complexes in Europe, gourmet food and the highest of high fashion. But it also harbours some unhappy connections for the socialists.

The city has a reputation for being the country's moral capital. It was there that Italy's anti-corruption judges launched their investigations at the start of the 1990s to clean up Italy's legendary political, business and bureaucratic corruption. Unfortunately, the result was to bring down the then socialist prime minister Bettino Craxi – now living in exile in Tunisia – and his party with him.

Craxi won't be attending the congress, since the moment he steps on Italian soil he faces arrest. And Europe's socialist leaders have yet to confirm they'll be going.

Whoever turns up will be greeted by an unlikely host. Gabriele Albertini, Milan's mayor, is a staunch supporter of right-wing opposition leader and media tycoon Silvio Berlusconi. He's also the only right-wing mayor to run a big Italian city, as the others have succumbed to the centre-left coalition supporting the government of former Communist Massimo D'Alema.

But D'Alema's own party feels the congress offers an opportunity to win back votes from northerners who feel perpetually left out in the cold by the folk in Rome. He's already made several trips to Milan pledging not to let it degenerate into a 21st century Chicago. As for the 20th century, tough.

Winging it

John Gage, Sun Microsystems' globe-trotting chief scientist, is no stranger to the vagaries of computer software. So he wasn't surprised that a panel of top US software experts, assembled to advise President Clinton on the state of the art, concluded that most software had an irritating tendency not to work properly – if at all.

But it took the eagle-eyed Gage to notice that somehow, somewhere, between the draft report and the final version, air traffic control systems had disappeared from the list of software that crashes several times a day. So long as it's only the software that crashes.

Bumpy landing

The whole world knows that South Africa has a crime problem. But is it entirely sensible for the national airline to ram the point home to unsuspecting arrivals? As a recent flight from London taxied towards the terminal, startled passengers heard the pilot welcome them with the words: "Welcome to Johannesburg. The safe part of your journey is now over."

The Financial Times

100 years ago

Death Of The French President

With the most intense regret Europe will hear this morning the sad and most unexpected intelligence of the sudden death of M. Felix Faure, President of the French Republic. As a man M. Faure had no enemies, and even as a President he was admitted to be thoroughly incorruptible, although brilliancy has never been claimed for him as a statesman even by his best friends. He assumed the presidency four years ago at a most critical juncture. M. Carnot had perished by the knife of the assassin.

50 years ago

German Imports

Frankfurt, Feb. 16. The main source of supply for Bizonal *[the combined areas administered by the US and UK]* imports in 1948 was the United States, which furnished goods costing $60.9m, or 61.6 per cent of the total, the Joint Export-Import Agency review of procurement reveals. Countries participating in the Marshall Plan contributed goods and services amounting to 33.7 per cent of the total.

FINANCIAL TIMES
WEDNESDAY FEBRUARY 17 1999

THE LEX COLUMN

No laggard

Smart work by Lagardère. Like the UK's General Electric Company, the French conglomerate has swapped its various defence joint ventures for a chunky stake in an enlarged national entity, the better to exploit European consolidation. But despite its 33 per cent stake, "industrial partner" status and management control of the new Aerospatiale, Lagardère's eventual exit from aerospace seems likely. And sensibly so: focusing on its Hachette media interests should narrow a 30-40 per cent conglomerate discount.

In the meantime, however, Lagardère has every interest in maximising Aerospatiale's value. Encouragingly, the French government is allowing it to forgo part of a balancing cash payment for its stake if Aerospatiale shares, on their eventual flotation, outperform the CAC-40 by more than 10 per cent over two years.

However, since the state plans to remain a substantial shareholder even after flotation, Lagardère is unlikely to be free from back-seat driving altogether.

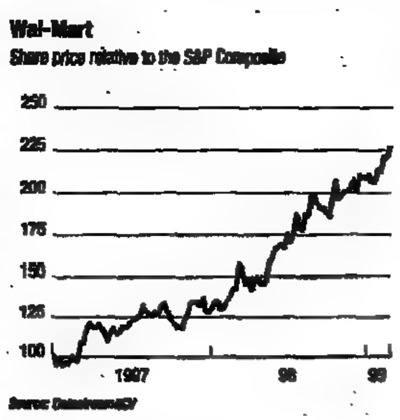
In theory, then, the deal should create loads of value. Traditionally dominated by its heavy civil aircraft activities, Aerospatiale becomes more like British Aerospace and DaimlerChrysler Aerospace in its business mix. And as the purest quoted play on Airbus, Lagardère should be an important force for rallying the French behind Airbus's belated rationalisation into a single corporate entity.

Banque Nationale de Paris

Offering job guarantees to Crédit Lyonnais' staff may defy business logic, but if it puts Banque Nationale de Paris first in the queue for an eventual merger, the strategy has merit. France's quoted banks were lagging behind their mutual rivals in terms of sector consolidation – until Société Générale did a deal with Paribas.

That has left BNP looking a bit lonely, and a distant third to SG/Paribas and Crédit Agricole, the biggest mutual. Crédit Lyonnais has obvious attractions for BNP.

Together they would have roughly 13 per cent of the French retail banking market. BNP, which has a market value of nearly €16bn, is bigger than Credit Lyonnais, yet not so much so that a merger of equals could not be constructed within the 60:40 limits.



Source: Datastream/ICV

But surely this is pie in the sky. The privatisation of Crédit Lyonnais has been designed to bar an immediate takeover. Half a dozen friendly shareholders are supposed to be taking stakes. But the SG/Paribas deal puts pressure on Crédit Lyonnais, as well as BNP – hence its bid for a leading role. While ruling out job cuts would forfeit some obvious savings, no French bank is taking the knife to its staff – yet. Retirements from 2001 will take the sting out of that chore.

Rationalisation of the overbanked sector will come, and BNP and Crédit Lyonnais could have a good stab at it together.

WalMart Stores

Still wondering where those free-spending US consumers are emptying their wallets? At Wal-Mart, clearly. The discount chain's full-year results were stunning, with earnings rising 26 per cent and sales up nearly 9 per cent on a like-for-like basis – and 17 per cent overall. Considering Wal-Mart's $137bn annual revenues exceed the gross domestic product of Greece and Poland, this kind of growth rate looks even more impressive.

The management deserves credit for its aggressive expansion drive. Already the world's largest retailer, Wal-Mart plans to increase its square footage by nearly a tenth this year. And the bigger it gets, the greater the economies of scale: operating margins rose 35 basis points to more than 6 per cent last year, which is pretty fat for a discounter. With that sort of muscle, Wal-Mart is in a strong position to spread its gospel of everyday low pricing around the globe – its venture into Germany, although small, has unnerved Europe's retailers.

Nevertheless, only 7 per cent of profits come from international operations – and most of those from Canada – so the group remains dependent on the US. As consumer spending slows, so will Wal-Mart. But analysts reckon it will still manage 14 per cent compound earnings growth over the next five years.

After nearly quadrupling since 1997, the shares are hardly cheap on 40 times earnings. But this is not a company to bet against.

Sema

Sema often compares unfavourably with CMG and Logica, its more impressive peers among the band of European information technology services companies. Yesterday, it did at least dispel some doubts over its ability to keep up with sector growth rates. Annual turnover from continuing businesses rose 21 per cent, adjusting for currency effects.

Other encouraging results included a healthy order book, with a big jump in the book-to-bill ratio. Better management of working capital also improved the cash flow.

And yet Sema's operating margins, at 6.5 per cent, are dull. The company is quick to point out the hefty research and development spend, without which margins climb to 9 per cent. But that is still well below rivals like CMG and Admiral, which are forecast to report margins of 13-14 per cent for 1998.

Of course, Sema's push into software products for telecommunications operators may improve the outlook. But as yet, the product division does not break even. Furthermore, its target market is competitive. Heavyweight telecoms equipment makers such as Lucent are also scouring for opportunities to develop such applications as billing systems.

Investors keen on the IT services sector world-wide should also consider the far higher valuations accorded to Sema and its ilk in the UK compared with the far more modest ratings their US peers command. Sema shares trade on a forward price/earnings ratio of around 50. That looks too punchy.

BNP to guarantee jobs in move on Crédit Lyonnais

Bank seeks stake in privatisation as shake-out continues

By Samer Iskandar in Paris

Banque Nationale de Paris, the second largest bank on the Paris stock market, is planning to guarantee the jobs of Crédit Lyonnais' 30,000 employees in exchange for a leading role in the privatisation of the state-owned bank.

Its offer is a response to this month's €15bn ($16.8bn) takeover of Paribas by Société Générale, creating France's largest bank and increasing pressure on BNP to seek a partner.

The Crédit Lyonnais privatisation, to be launched next month, is expected to bring about further rationalisation of French banking.

Senior executives said BNP's plan had been discussed informally with finance ministry officials and a formal proposal could follow.

The French government is planning to sell up to a third of Crédit Lyonnais to institutional investors, creating a group of "partner shareholders" with stakes of 5 to 8 per cent each. Up to 50 per cent will be floated on the stock market, with the government and bank employees holding the remainder.

BNP is thought to be seeking a larger stake than the other institutional investors, giving it an active role among "sleeping partners". "Our plan would maintain the two brands and their entire networks," said a BNP executive.

Its offer is unlikely to change the government's plans, which were cleared last spring by the European commission, but the jobs issue could now become a key factor in the bidding by large investors.

Job creation is the top priority of Lionel Jospin, the French prime minister, and the government is keen to avoid redundancies as a result of the privatisation.

"Sooner than you think, guaranteeing that there will be no job cuts will become a pre-condition for participating in the privatisation," said a US investment banker involved in French mergers and acquisitions.

When CIC, a commercial bank, was privatised a year ago, the government accepted a FFr20bn bid by Crédit Mutuel, a mutually-owned bank, over a higher offer from ABN-Amro of the Netherlands. Crédit Mutuel had offered job guarantees for CIC employees.

Bankers in Paris said Jean Peyrelevade, Crédit Lyonnais chairman, had turned down a co-operation proposal from Michel Pébereau, his opposite number at BNP, in a telephone conversation after the SocGen/Paribas deal was announced. On February 2, the day following the announcement, Michel Pébereau, BNP chairman, said the bank's senior management was "increasingly interested [in] getting closer" to another bank.

Mr Peyrelevade, who is hostile to a link-up with a rival commercial bank such as BNP, appealed last week for Crédit Agricole to play a role in the privatisation. Crédit Agricole, a mutually-owned bank, said it would "examine" the possibility.

See Lex; France and the euro, Page 10
CCF shares surge, Page 14

Brussels accused of trying to sabotage trade advice centre

By Frances Williams in Geneva

Supporters of a plan to set up an independent legal aid centre for poor countries involved in trade disputes have accused the European Commission, the executive arm of the European Union, of trying to sabotage it.

The European Commission yesterday proposed instead strengthening the ability of the World Trade Organisation to give legal advice to developing countries, many of which lack the expertise and resources to challenge the trade policies of industrialised countries or defend themselves effectively against complaints.

Backers of the planned Advisory Centre on WTO Law say Commission officials fear the centre could help countries to challenge the EU's protectionist Common Agricultural Policy or the environmental and social conditions applied to its preferential trade arrangements for poor nations.

They argue that the Commission's counter-proposal will not meet the need of poorer nations for access to high-powered lawyers able to argue their case.

WTO officials are required to be neutral.

"Developing countries need partisan legal advice," said one trade official supporting the centre. "By definition, that cannot be given by the WTO."

He and other trade officials said the move by Brussels was an attempt to stop individual EU members contributing to the independent centre, which could leave it short of funds.

The Commission speaks for the 15 EU member states in the WTO.

The Netherlands, Sweden and the UK are among the 13-strong core group of countries promoting the centre, the others being Bangladesh, Colombia, Hong Kong, Norway, the Philippines, South Africa, Tanzania, Tunisia, Turkey and Venezuela.

Proponents argue that the centre is needed to ensure the fundamental democratic principle of "equal access to justice" in international dispute settlement, just as legal aid schemes allow those on low incomes to defend their rights under domestic law.

Nigel Gardner, spokesman for Sir Leon Brittan, the EU trade commissioner, yesterday denied divisions in EU ranks and said the Commission's plan, which envisages a free-standing legal advice unit within the WTO, had the backing of all member states.

However, the EU proposal has run into opposition from the US which told the WTO's general council yesterday that the proposal would compromise the WTO's impartiality.

The centre's backers are trying to raise the $15m needed for the scheme to go into operation by the target date of July 1999 from WTO governments.

The centre would act on behalf of developing and transition countries wishing to pursue trade complaints or facing a WTO challenge. Fees would be based on ability to pay.

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Rao Caifu: Chinese banker without a single bad debt in a banking industry with $200bn worth of problem loans. Page 4 James Harding

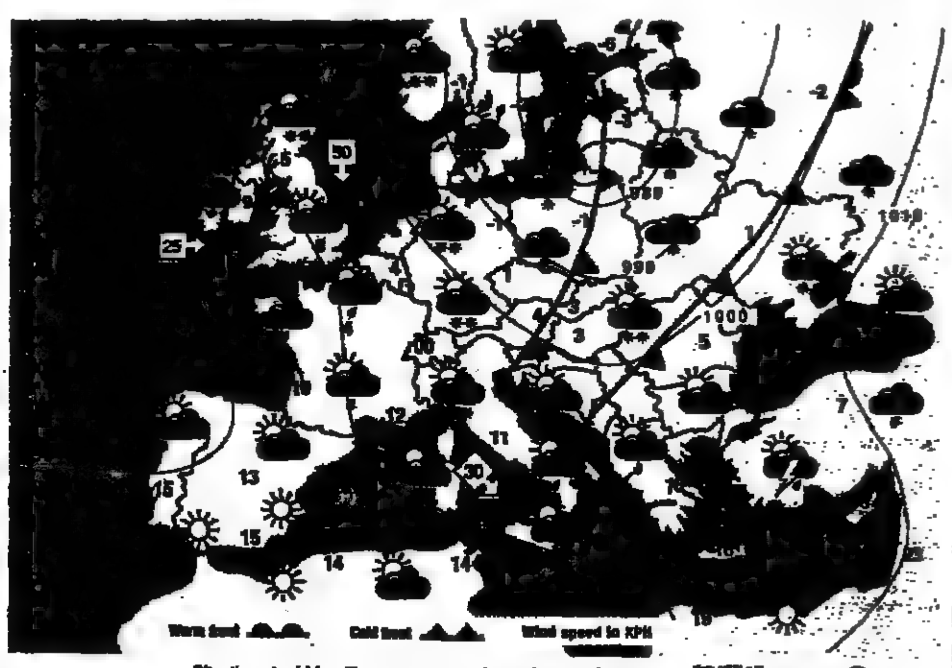
FT WEATHER GUIDE

Europe today

The eastern Mediterranean will have heavy showers and longer spells of rain. Southern Italy will also be showery but northern Italy should be mostly dry with sunny spells. Spain and Portugal will be fairly sunny but the far north will have showers. A chilly north-westerly airflow will affect France, the Low Countries and Germany with sunny spells and showers. The showers will be heavy and wintry across Holland and Germany. Scandinavia and eastern Europe will be cold with snow flurries.

Five-day forecast

A strong ridge of high pressure will keep the western Mediterranean fine but Greece will stay unsettled. Central and north-west Europe will be changeable but milder air will move in off the Atlantic. Southern and western Scandinavia will be warmer but windier with heavy rain and snow by Friday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	24
Accra	Fair	31
Algiers	Fair	14
Amsterdam	Shower	4
Athens	Shower	13
Atlanta	Rain	14
B. Aires	Fair	31
B.ham	Fair	6
Bangkok	Fair	33
Barcelona	Sun	14
Beijing	Sun	5
Belfast	Shower	6
Belgrade	Snow	2
Berlin	Snow	-1
Bermuda	Fair	18
Bogota	Fair	19
Bombay	Sun	35
Brussels	Sleet	4
Budapest	Fair	2
C.hagen	Fair	-1
Cairo	Fair	25
Caracas	Fair	28
Cardiff	Drzzl	6
Casablanca	Sun	16
Chicago	Fair	3
Cologne	Snow	2
Dakar	Fair	23
Dallas	Sun	22
Delhi	[illegible]	28
[illegible]	Sun	24
Dublin	Rain	9
Dubrovnik	Fair	11
Edinburgh	Shower	5
[illegible]	Sun	18
Frankfurt	Snow	2
Geneva	Sleet	4
Gibraltar	Sun	17
Glasgow	Shower	5
Hamburg	Snow	1
Helsinki	Snow	-3
Hong Kong	[illegible]	24
Honolulu	Sun	27
Istanbul	[illegible]	8
Jakarta	Cloudy	30
Jersey	Shower	5
Johannesburg	Thunder	28
Karachi	Sun	29
Kuwait	Sun	24
L. Angeles	Fair	16
Las Palmas	Fair	19
Lima	Fair	27
Lisbon	Sun	15
London	Shower	8
Lux.bourg	Snow	1
Lyon	Cloudy	4
Madeira	Cloudy	17
Madrid	Fair	13
Majorca	Fair	15
Malta	Fair	15
Manchester	Drzzl	6
Manila	Fair	30
Melbourne	Shower	25
Mexico City	Fair	25
Miami	Fair	22
Milan	Sun	10
Montreal	Snow	-4
Moscow	Snow	-2
Munich	Snow	2
Nairobi	Fair	29
Naples	Fair	10
Nassau	Fair	23
New York	Rain	9
Nice	Sun	12
Nicosia	Fair	19
Oslo	Sun	-1
Paris	Fair	7
Perth	Sun	34
Prague	Snow	1
Rangoon	Sun	35
Reykjavik	Snow	2
Rio	Fair	30
Rome	Fair	11
S. Frsco	Rain	13
Seoul	Fair	5
Singapore	Shower	31
Stockholm	Fair	-2
Strasbourg	Sleet	4
Sydney	Fair	25
Tangier	Fair	15
Tel Aviv	Fair	23
Tokyo	Shower	12
Toronto	Rain	3
Vancouver	Rain	8
Venice	Fair	7
Vienna	Thunder	4
Warsaw	Snow	0
Washington	Shower	13
Wellington	Fair	22
Winnipeg	Snow	-6
Zurich	Sleet	2

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Intel launches new Pentium chips

Craig Barrett (left), chief executive of Intel, the world's leading semi-conductor manufacturer, will today launch a new generation of Pentium microprocessors that will boost the internet capabilities of PCs. The new chips will bring full-motion video to the PC screen, blurring the distinctions between television and internet services. PCs may also, for the first time, become truly competitive with purpose-built computer game machines that plug into the TV set. Page 17

All clear for Egyptian business

Egyptian businesses are discovering that transparency can be profitable and that the accounting tricks of the past are unlikely to deceive the new breed of investment bankers they now deal with. Private companies will have to disclose more financial information to investors if they want to attract capital market funds. Page 14

Flood of interest for water licences

Australia's most scarce natural resource, water, is becoming commoditised. Once regarded as a gift from God, water is now being traded and is attracting big money in a big dry continent. For the first time, the value of water is being decoupled from the value of land and the market is putting a price on this water. Page 22

Telecom brings balance to Tallinn

The flotation last week of a 23.7 per cent stake in Estonia's telecommunications monopoly, Estonian Telecom, has nearly trebled the market capitalisation of the Tallinn stock exchange and put an end to the dominance of bank shares. The offering is likely to boost a bourse still suffering the effects of the Russian crisis. Page 32

Australia cuts price of iron ore

Australia's iron ore exporters have agreed to take price cuts of around 11 per cent for iron ore shipments to Japanese steel mills. The deal follows four years of increases and reflects the fact that Japanese steel production is running at 27-year lows. Page 22

Yen falls with government approval

The yen continued to sink under the tolerant eye of Eisuke Sakakibara, the Japanese vice-finance minister known as Mr Yen. Mr Sakakibara said the yen's weakening was a logical consequence of Friday's interest rate cuts, and the government did not want to intervene unless panic set in. Page 21

Rate concerns depress euro-zone

Interest rate concerns preoccupied world stock markets, boosting Tokyo but depressing Europe. Even a strong start on Wall Street, returning after a holiday on Monday, failed to improve the mood in the euro-zone. Page 32

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MARKET STATISTICS

JAPANESE GROUP'S PUBLIC OFFERINGS WOULD BE AIMED AT REINFORCEMENT AS SOFTWARE SECTOR RAPIDLY CONSOLIDATES

Fujitsu may float US subsidiaries

By Paul Abrahams in Tokyo

Fujitsu, the Japanese software and information technology services group, is considering the partial flotation of the US's DMR Consulting and Amdahl, once one of the great names in the US computing sector.

The Tokyo-based company said it also remained committed to an initial public offering in ICL, its UK computer services subsidiary. This is scheduled for next year.

The IPOs would be aimed at helping the subsidiaries make acquisitions to reinforce their position in the rapidly consolidating software services sector. The plans also underline the financial weakness of the Japanese parent company whose semi-conductor and telecommunications arms are struggling from falling demand and a collapse in prices.

In an interview with the Financial Times, Naoyuki Akikusa, the recently appointed president of Fujitsu, said an initial public offering for ICL was clearly the right step for the company and that the US operations could also follow that path.

"The software services environment is changing quickly. To survive these companies may need to make acquisitions. This is not a period when our subsidiaries abroad can ask Fujitsu for funds. They must obtain their own," he said.

He continued: "We are in difficulties with our semi-conductor operations and for this [financial] year and next year I cannot be optimistic. The losses on semi-conductors are so large that it makes it difficult for the group as a whole."

The personal computer business was also in loss, although it was not a large one, he added. However, the software and services operations and hard disc drive businesses were doing well.

Brokers Warburg Dillon Read estimated Fujitsu would achieve net profits of just Y30bn ($258.6m) in the year to March 31 on sales of Y5,290bn.

Mr Akikusa said the flotations would also offer the possibility of share options for staff, which should lead to better retention of key personnel. However, this was not the main motivation for the share issue.

He added that Fujitsu needed to ensure that the Japanese retained management influence after the IPOs, although it was important to stress localisation as well.

In the year ending in March, Amdahl is expected to generate revenues of $2.2bn. Recent profit figures are not available. But in 1996, when Fujitsu acquired the 58 per cent of the company it did not own for about $880m, the company posted losses of $326m on sales of $1.6bn.

In 1997, the last year for which figures have been published, ICL achieved pre-tax profits of £30m ($48.9m) on turnover of £2.48bn.

Fujitsu acquired the last 9.9 per cent of the UK company that it did not own late last year for £50m from Nortel Networks, the Canadian telecoms equipment maker.

Schools to get free net, Page 7
Net stocks' valuation, Page 17

Sponsored telephony leader considers listing

By Tim Burt in Stockholm and David Owen in Paris

GratisTel International, the Swedish company behind Europe's first advertising-sponsored mobile telephone service, is planning to seek a stock market listing following the launch of services this year in the UK, France and Denmark.

The company provides free telephone calls for customers prepared to listen to commercials. It is expected to be valued at about $100m when it comes to market.

Privately-owned GratisTel is the largest of about 15 fledgling "sponsored telephony" companies which have been set up in Europe and North America in recent years.

They license technology to network operators for so-called free calls in return for call royalties. The network operators, in turn, sell airtime to advertisers.

Executives yesterday said it would decide next month whether to list in New York or Stockholm, where GratisTel is based.

Proceeds from a rights issue raising $15m-$20m of new capital have been earmarked for an aggressive international expansion, with the company aiming to lift its subscriber base from 2.5m this year to 10m by the end of 2000.

Before being connected, callers are obliged to listen to advertising or info-media such as local weather or news reports.

Under GratisTel's proprietary technology, the calls are interrupted by 10 second commercials heard both by the subscriber and the person called.

Analysts have questioned the market for such a system, pointing out that few premium-rate paying customers would opt for the service.

GratisTel, however, has captured 7 per cent of the fixed-line telephone customer base in Stockholm.

Sonofon, the Danish cellular operator, and Bouygues Telecom of France, have signed letters of intent to offer the system, featuring advertisers including McDonalds, the fast-food chain, and news channel CNN.

Bouygues Telecom emphasised that the project was at the planning stage, but said it would probably test market the service in late spring or early summer.

Last week GratisTel signed its first contract for advertising-sponsored calls in the UK. The deal follows a year of talks with a "leading" network operator, which has not been named.

British Telecommunications yesterday confirmed it had been in talks with the group, but said it had not signed a contract. UK network operators Vodafone and Orange are also understood to have been in negotiations with GratisTel. They declined to comment yesterday.

Peter Landgren, GratisTel chief executive, said the group was also close to signing its first contracts in the US and Japan.

"If sponsored telephony wins 1 per cent of the global media market, the turnover for the companies involved could be worth SKr100bn," he added.

Wal-Mart delivers strong results

Shares up as final quarter surges 21%

By Andrew Edgecliffe-Johnson

Cheer at the check-out: But reports of a possible purchase in the UK are "just a lot of speculation". Reuters

Wal-Mart Stores, the world's largest retailer, extended its market-beating share price rally yesterday after stronger than expected fourth quarter results which showed the fruits of its international expansion.

However, Bobby Martin, head of the US discount retailer's international division, played down speculation of an imminent step-up in its European acquisition strategy, saying that most of its expansion would occur in existing markets.

Wal-Mart's only current European market is Germany. Reports that it might buy Asda or MFI in the UK were "just a lot of speculation", Mr Martin said.

The focus of its European expansion strategy this year would be on converting the 74 German stores acquired from Spar Handels last year, he added.

Net income for the final quarter increased by 21 per cent to $1.56bn (€1.77), giving earnings per share of 70 cents, up 23 per cent. The rise came on a 15 per cent improvement in sales to $40.8bn, which included an 8.7 per cent like for like improvement.

The results sent Wal-Mart's shares up $3⅛ to $87¾ by lunchtime, taking the share price to almost four times the level at which it stood in January 1997.

Linda Kristiansen, retail analyst at Schroders, said: "Wal-Mart has done stunningly well, partly because of its own flawless execution, partly because of the continued strength of consumer spending.

At some point that must slow, but while the economy stays strong, they will continue to outperform."

The fourth-quarter results contributed to a 17 per cent increase in full-year sales to $137bn, and a 26 per cent rise in annual net income to a record $4.43bn.

Growth came across the board, but was particularly strong in the international division, which includes Mexico and Canada. International operating profits leapt from $262m to $551m in the year, on a 63 per cent sales advance to $12.2bn.

The main Wal-Mart stores division grew sales by 14 per cent to $95.4bn and increased operating profit by 21 per cent to $7.08bn in 1998, thanks partly to the conversion of existing stores into Supercenters, which include food stores alongside general merchandise.

Mr Martin said Wal-Mart would want to be "a major player and a dominant player" in e-commerce as that market developed. The group intends to step up its e-commerce activities this year, he said, but "our philosophy has always been that the customer guides us."

Lex, Page 12

Barclays posts 12% increase in pre-tax profits

By George Graham, Banking Editor

Barclays, the UK banking group, yesterday promised a cost freeze this year as it announced pre-tax profits of £1.92bn ($3.12bn) in 1998.

The result represented a rise of 12 per cent in reported profits, but was flattered by heavy exceptional costs in 1997. Operating profits on ongoing businesses fell 20 per cent to £1.99bn.

Sir Peter Middleton, who has been acting as chief executive since the departure last November of Martin Taylor, said Barclays had exceeded its cost targets, with total operating expenses for ongoing businesses rising 5.4 per cent to £4.86bn.

Sir Peter said Michael O'Neill, the Bank of America executive whose appointment as Barclays' new chief executive was announced last week, would want to play a part in the formulation of the cost-cutting plans, and a more detailed programme would be announced in August with the bank's half-year results.

However, the bank had already embarked on its plans to bring its spiralling costs under control.

"I'm bloody sure I'm going to keep these costs constant this year," Sir Peter said, pledging that cost controls would start at the top with a freeze on boardroom expenses.

The promise of a brake on costs thrilled investors, pushing Barclays shares – which had already risen in the wake of Mr O'Neill's appointment – up 6.4 per cent yesterday to £16.92. Brokers Crédit Lyonnais Securities said it expected to increase its profit forecasts for 1999 and 2000 by about 4 per cent.

Barclays profits were slightly higher than the level it had earlier told analysts to expect, but were battered by the impact of Russia's default on its domestic debts and the subsequent turmoil in financial markets. That led to losses of £205m on proprietary trading and a further £153m of provisions on exposures to Russian debtors.

Barclays Capital, the investment banking division that bore the brunt of the Russian upheaval, reported an operating loss of £265m compared with an operating profit of £252m in 1997. Sir Peter indicated he hoped to turn that loss around in 1999.

"You wouldn't be all that far off if you reversed the sign."

The bank's two largest divisions, however, continued to turn in substantial profits. Retail financial services increased operating profits 18 per cent to £1.52bn, a return on economic capital of 45 per cent. Corporate banking raised operating profits by 6 per cent to £972m, a return of 27 per cent.

Excluding the Russian provisions, loan loss provisions rose from £227m to £339m, but remained at less than half the £700m level the bank estimates as its average annual bad debt charge over the course of the economic cycle.

Barclays searches, Page 18

Regulator doubts fail to curb online brokerage

By John Labate in New York

The rapid expansion of US online brokerages has continued despite cautionary noises from regulators and growing consumer frustration caused by trading failures and slowdowns.

Charles Schwab, the largest online broker, said it had reached "unprecedented volumes in January", with an average of 153,000 online trades a day. This was 60 per cent up on the fourth quarter of 1998. On average 6,400 new online accounts were opened each day.

The rise, which surprised analysts, helped push Charles Schwab's customer asset holdings to $521bn during the month, 40 per cent above the same period last year.

Separately, E*Trade, the third largest online trading company, is to launch the first of a new line of mutual funds and money market funds next week after receiving regulatory approval to expand into asset management. It said the fund would be called the E*Trade Standard & Poor's 500 Index Fund.

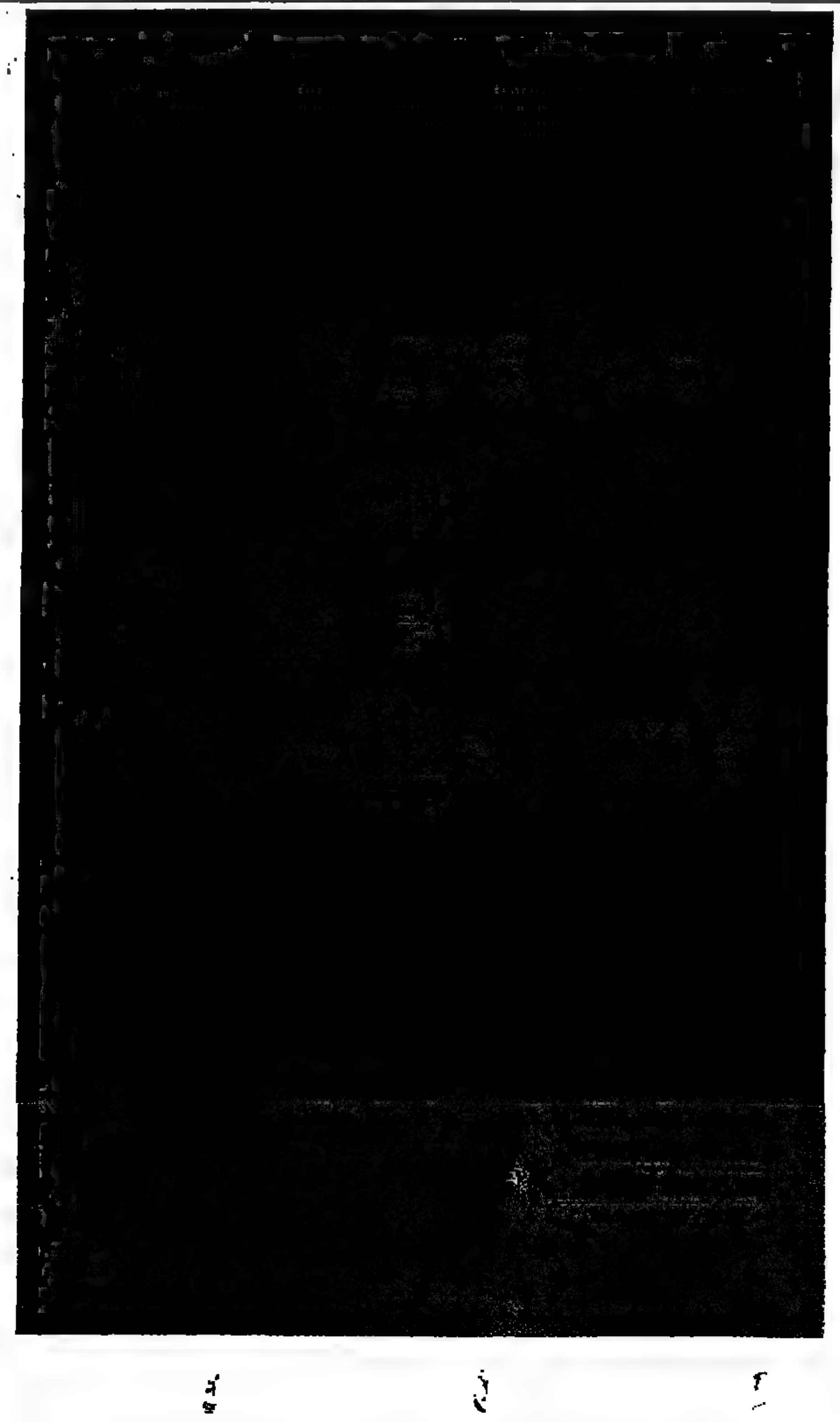
This brings the company into line with other retail industry leaders such as Schwab, and takes E*Trade nearer to building an online full-service brokerage.

On Wall Street, Charles Schwab stock rose more than 4 per cent to $65⅛ by lunchtime, with E*Trade up $¾ to $48¾.

Donaldson, Lufkin & Jenrette, which owns DLJ Direct, its own online brokerage, was also up at midsession, reaching $52¾, up $2¾. The company is set to announce whether it will launch an initial public offering for the online arm.

The online brokerage sector continues to suffer from its success, with the largest traders suffering slowdowns as they scramble to keep up with rising demand. Bill Burnham, electronic commerce analyst at CS First Boston in San Francisco, said: "The problem is not that people don't like them; it's that they like the industry too much."

Two weeks ago Eliot Spitzer, New York State's attorney-general, announced an industry inquiry in response to the high number of customer complaints.



BENCHMARKS LONDON EXCHANGE TO ALLOW CONVERSION OF LIBOR CONTRACTS

Liffe gives way to Euribor

By Edward Luce, Capital Markets Editor

The London International Financial Futures and Options Exchange is expected today to give the market the opportunity to bury its contract based on Libor, the London Inter-bank Offered Rate, and convert its remaining positions into Euribor, the rate set in Brussels.

The move, which will take place as a "voluntary conversion", is the strongest sign yet that the reference bank lending rate set in London has in effect lost the "battle of the benchmarks" to Brussels.

Although the success of Euribor will not necessarily have any bearing on where money market trading in euros takes place, the threat to Libor was seen as a direct threat to Liffe, which has lost much of its volume in other contracts to Eurex, its Frankfurt-based competitor.

Both Eurex and Matif, the French derivatives exchange, offer three-month interest rate contracts based on Euribor. So far neither exchange has managed to make a large dent in the market for the key interest rate future, with Liffe maintaining a 75 per cent share of overall turnover.

However, derivatives traders say that Liffe's commanding lead could slip when the first three-month Euribor contract expires on March 15.

At this stage, the market will be given the opportunity to "roll-over" positions into the new contract expiring in June or close positions and switch to either Matif or Eurex.

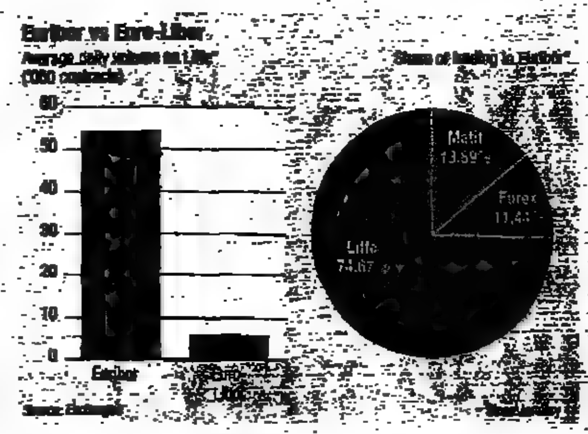
"The battle is by no means over on which exchange dominates the Euribor contract," said a senior trader in London.

Bankers say that Liffe is still in a precarious situation only two months before it begins to move its largest contracts on to its full-time electronic screen trading system, Liffe Connect.

With both Matif and Eurex offering lower-cost electronic trading, volumes could still move in the intervening period. However, traders agree that the "open outcry" system, which Liffe is in effect phasing out, still offers greater liquidity on the more sophisticated contracts such as the three-month interest rate future.

This is because the market likes to carry out complex "multi-strike" trades on interest rates futures, which are still difficult to execute on electronic trading systems. Liffe's Euribor contract is set to move to the screen in July or August.

The exchanges are also battling fiercely to win a dominant share in trading of the various equity index futures for the euro-denominated stock market.



Astra plays down delays to $35bn Zeneca merger

By Nicholas George in Stockholm

Astra, the Swedish pharmaceutical group, yesterday played down regulatory delays in its planned $35bn merger with Zeneca of the UK, describing as "minor" the issues it is discussing with European and US regulators.

Regulators in Europe have called for detailed information on the merged company's position in the beta blocker drug, used to control blood pressure, while US authorities were examining its position in local anaesthetics.

Hakan Mogren, Astra chief executive, expressed optimism that the merger would remain on the fast track for approval. He said talks with regulators were "very positive".

He was speaking after Astra announced full year pre-tax profits, which rose 15 per cent to SKr16.44bn ($2.08bn) from SKr14.31bn. For comparable units, which excludes Astra's purchase of Merck's half of its US joint venture, pre-tax profits in the 12 months to December 31 rose 22 per cent.

Total sales rose 27 per cent to SKr57.19bn from SKr44.9bn, with sales of the world's number one selling prescription drug, the anti-peptic ulcer treatment Losec, up 47 per cent to SKr31.62bn from SKr21.53bn.

Discussions with the European Competition Commission concern the strong position AstraZeneca will have in the beta blocker market due to the combined sales of Astra's Seloken and Zeneca's Tenormin and Inderal drugs.

The company said the beta blocker issue revolved partly around how their market should be defined, as they were just one of several alternatives in the treatment of high blood pressure.

In the US, discussions with the Federal Trade Commission were, among other things, on local anaesthetics where Astra has Marcaine and Naropin and Zeneca has the licensing right to Chirocaine.

Last year sales of Pulmicort, the asthma treatment, rose 11 per cent to SKr5.49bn from SKr4.92bn. However sales in the US only reached SKr357m – about two-thirds of the target.

Earnings per share rose to SKr7.18 from SKr6.21 with the proposed dividend to be raised to SKr1.90 from SKr1.80. Astra's most commonly traded A shares closed up SKr5.50 at SKr161.

Electrolux lifted by US and European demand

By Tim Burt in Stockholm

Electrolux, the world's largest household appliances group, saw underlying profits jump by a third last year as buoyant US and European demand offset volatile sales in Asia, Russia and Latin America.

The company yesterday announced operating profits up from SKr4.55bn to SKr6.06bn ($767m), even though overall sales rose modestly from SKr113bn to SKr117.5bn.

Michael Treschow, chief executive, said the improvement reflected the first full-year benefits of the company's 1997 restructuring, in which it vowed to cut 12,000 jobs and shut 25 plants and 50 warehouses.

After taking account of the SKr2.5bn provision set aside for that overhaul in 1997, pre-tax profits jumped from SKr1.28bn to SKr5.98bn in 1998.

Mr Treschow said that 80 per cent of the restructuring had been completed, helping to propel Electrolux towards its goal of 6.5-7 per cent operating margins and a return on equity of at least 15 per cent.

Nevertheless, the chief executive admitted that profitability was still below stated targets.

Last year, profit growth was dented by a 17 per cent decline in the Brazilian white goods market and weak demand in Russia and the emerging markets of south-east Asia. That was balanced by rising demand in the US amid strong volume growth and improved internal efficiency.

Of the group's three operating divisions, household appliances reported profits up from SKr2.94bn to SKr4.07bn. The outdoor products business contributed SKr1.79bn, up from the SKr1.68bn achieved last time. The professional appliances arm saw profits more than double from SKr340m to SKr723m.

For the group as a whole, fourth-quarter operating profits rose 57 per cent to SKr1.75bn on sales up from SKr27.8bn to SKr28.1bn.

In spite of the volatile conditions in Asia and Latin America Mr Treschow predicted further growth this year in both mature and new markets. For 1998, earnings per share rose to SKr10.85 from SKr0.96. A dividend of SKr3 has been proposed, compared with SKr2.50 last time. The group's most commonly traded B shares rose SKr12 to SKr152.50.

Pressure builds on Egypt's businesses to be less secretive

Private sector companies must provide more financial information if they are to attract capital market funds, reports **Mark Huband**

The secret of success is becoming less so among Egyptian businesses. They have begun to discover that transparency can be not only profitable but also that the accounting tricks of the past are unlikely to deceive the new breed of investment bankers in whose hands they have been falling.

Banks, regulators and rating agencies say that Egypt's private sector companies must be prepared to disclose more financial information to investors if they are to attract capital market funds to expand.

The case of one Cairo-based global fund manager and a medium-sized industrialist is an example of folly and proof that it does not pay. A substantial investment by the fund was made on the basis of figures provided by the company. But a deceit was exposed when the company published its annual report.

"We told them that our investment had been made on the basis of a lie, and demanded that they buy back our shares. Which they did," said the fund manager. "It's happened more than once, but not regularly. Clearly we have to be very careful."

A year ago the government decreed that companies must abide by internationally recognised General Accounting Principles (GAP). Government officials say this is now being done.

But pressure for full financial disclosure has mounted as the role of the capital market has expanded.

Egypt's banks are generally conservative, and the lure of the capital market has led companies with substantial bank debts to seek refinancing elsewhere. Transparency has now become central to the demands of the capital market institutions, and is a significant shock to some traditional businesses.

"For the past 30 years the wealthiest people – what we call the gang of 40 – have been those who were essentially commission brokers. They can close deals, but they can't do business," said the chairman of a big Egyptian industrial group.

"They aren't able to cope with financial growth. Their companies have structural problems. Some don't have any real management, or the management is made-up of retired army generals. And several of the major ones are heavily in debt. Occasionally their cheques have bounced," he said.

For the brokers charged with selling companies on the stock exchange, the task of squeezing company managers for sufficient information to allow them to present investors with an accurate profile of the companies is often arduous.

"We can go and visit the companies, and the financial manager will give as much information as he regards adequate. Some companies won't release anything," said Ahmed el-Helw, managing director of Inter-capital Securities, a leading Cairo brokerage house.

Companies that have yet to issue their shares on the stock markets include Kato Group, an industrial and food conglomerate, Ghabbour Group, a vehicle manufacturer and Bahgat Group, a leisure industries and construction group.

Some big family owned businesses are reluctant to issue their shares because they lack confidence in the operations of the Egyptian Stock Exchange.

However, reform of the ESE in the past year has made it one of the most efficient and modern in the Middle East and North Africa, suggesting that the reluctance of companies to issue their shares stems from their own doubts over their readiness to go public.

Furthermore, confidence in the ESE is undermined by the failure of listed companies to routinely inform the exchange that results have been issued, leading to investors trading shares on the basis of unequal access to information.

Despite general improvements to accounting procedures within companies, the lack of readiness to disclose what are still regarded as company secrets has prevented companies seeking credit ratings.

"The companies that are not looking for ratings are currently getting their finance from elsewhere and don't need to come to the market," said Hazim al-Dalli, CEO of Nile Rating, the Egyptian subsidiary of Fitch IBCA and currently Egypt's sole rating agency.

"But a lot of the [industrial] groups are reaching their exposure limits with the banks, and will have to start disclosing their financials if they want to raise funds," he said.

Meanwhile, foreign investment bankers are yet to be convinced that they can routinely rely on the information that companies are prepared to disclose.

"If these issues aren't sorted out it will deter investors," said Christopher Vaughan, managing director of HSBC Investment Banking in Egypt.

"International companies are clearly more nervous now because of the global problems. So they want to feel comfortable with the investments, which means that half-baked deals are not going to work," he said.

Egyptian companies: Sphinx-like secrecy

NEWS DIGEST

AUTOMOTIVE INDUSTRY

Volvo to cut further 650 jobs at Swedish trucks arm

Volvo, the Swedish vehicles group, announced yesterday it was to cut a further 650 jobs at its trucks unit in Sweden due to more efficient production and an expected drop in European demand for heavy trucks. It said 1998 had seen record levels of truck demand in Europe and its plants had been working to deal with this and an order backlog which had built up. Now, with demand for heavy trucks in Europe forecast to drop slightly and the order backlog cleared, production needed to be cut.

The cutbacks at the Umea and Skövde plants are on top of the 5,300 job losses across the group announced by Volvo in November last year. Of these 1,000 are to be at Volvo Truck. **Nicholas George, Stockholm**

BERTELSMANN/HAVAS

Joint venture nears completion

Bertelsmann, the German media group, yesterday said it was poised to complete a specialist publishing joint-venture with Havas of France following clearance from the European Commission for Bertelsmann's takeover of Springer, a scientific and textbook publisher.

The German group said talks on a joint venture with Havas could be completed within two weeks, creating an enlarged group to rival companies such as Reed Elsevier and Wolters Kluwer.

The takeover of Heidelberg-based Springer, which is not connected to the newspaper and magazine publishing group Axel Springer Verlag, lifts turnover at Bertelsmann's specialist publishing unit from DM625m to DM1.5bn (€767m, $882m). The increase means the German group can merge its specialist publishing interests with those of Havas on an equal basis and avoid paying a premium.

The EC yesterday approved Bertelsmann's estimated DM1bn acquisition of 86 per cent of privately-held Springer. **Frederick Studemann, Berlin**

HOECHST

Merger setback denied

A supervisory board member of German chemicals and pharmaceuticals maker Hoechst yesterday rejected a report that Hoechst's largest shareholder, the sultanate of Kuwait, opposes the group's plans to merge with French pharmaceuticals maker Rhône-Poulenc.

The German daily Frankfurter Allgemeine Zeitung yesterday sparked further talk that the Kuwaitis may be unhappy about Hoechst's plans and may try to block them at an annual shareholders' meeting on May 4.

"There is nothing to my knowledge that would suggest that Kuwaiti shareholders will block Hoechst's plans" to merge with Rhône-Poulenc, said Rainer Kumlehn, the regional head of the mining, chemical and energy union. He represents Hoechst workers on the company's supervisory board. The Kuwait Petroleum Company, which could not be reached for comment, owns 24.5 per cent of Hoechst. **Uta Harnischfeger, Frankfurt**

AIRLINES

Lufthansa unit in $134m US buy

A subsidiary of Lufthansa, the German airline, said yesterday it had agreed to buy Hudson General in a deal valued at about $134m, apparently winning a four-way bidding war for the US airport services provider. Lufthansa's airport ground services unit, GlobeGround, said it had agreed to buy Hudson General for $76 cash a share.

Hudson General, which handles baggage, fuelling and de-icing at airports across the US and Canada, is the North American link for GlobeGround, which provides ground services at 80 airports worldwide. Under the deal, a GlobeGround subsidiary will start a tender offer for all Hudson General shares. The offer will be conditional on a majority of outstanding shares being tendered. In early trading, Hudson General shares were up $3½ to $77. **Reuters, New York**

See Technology page

STEEL

Rautaruukki posts 35% decline

Rautaruukki, the Finnish steel group, yesterday said it saw steel prices reaching their low point in the first quarter of this year and forecast some improvements in price levels in the latter part of 1999. Announcing a 35 per cent decline in full-year pre-tax profits from FM1bn to FM754m (€127m, $142.5m), the company said the sharp fall in steel prices in 1998 had hit earnings. In the 12 months to December 31 sales rose from FM13.65 to FM15.35bn. Earnings per share fell to FM3.81, from FM5.82, with the proposed dividend cut from FM2 to FM1.80. **Nicholas George**

CCF shares surge amid talk of takeover bid

By Samer Iskandar in Paris

The imminent sale of a big stake in Crédit Commercial de France, one of France's 10 largest banks, yesterday drove its shares up sharply on speculation it might become the first French target of a hostile, possibly cross-border, takeover.

CCF shares closed at €79.95 yesterday, up 5.3 per cent, after rising almost 2 per cent on Monday.

The shares have traded erratically for a month, ever since Mutuelles du Mans, the mutually-owned insurer which is CCF's second largest shareholder, hired Lehman Brothers to advise it on selling its 7.8 per cent stake.

Earlier this year, Swiss Life, the insurance company partly controlled by UBS, the Swiss bank, raised its stake in CCF to 10.2 per cent, confirming its position as the French bank's largest shareholder.

A few weeks earlier, ING, the Dutch banking and insurance group, more than doubled its holding to 5.9 per cent.

In a report issued last week, analysts at J.P. Morgan, the US investment bank, said: "Recent events affecting CCF's shareholding structure point to its vulnerability and show that the loyalty of some of its core shareholders can no longer be taken for granted."

Neither ING nor Swiss Life ruled out increasing its stake. But Swiss Life, which had to disclose its intentions under French financial regulations, said it had "no intention to take control of CCF".

Mutuelles du Mans, which has held a stake since CCF was privatised more than a decade ago, said its investment was "not strategic" and hinted that it would sell to the highest bidder.

Lehman Brothers, the US investment bank handling the sale, is believed to be examining up to a dozen bids, mainly from foreign institutions.

A sale of the 7.8 per cent stake to an existing shareholder, such as ING, could make it CCF's leading shareholder, ahead of Swiss Life.

Italy's San Paolo-IMI Bank recently said it was interested in forging "closer co-operation" with CCF. KBC, the Belgian bank recently created from the merger of Cera Bank, Kredietbank and insurer ABB, is also thought to be interested.

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CARMAKING FIRST EXCLUSIVE OUTLETS TO BE OPENED THIS MONTH

Honda to set up China dealer network

By Alexandra Harney in Tokyo

Honda Motor will become the first Japanese carmaker to establish a network of dealerships for locally assembled cars in China when it opens its first outlets this month.

Japan's third largest carmaker intends to open between 20 and 30 dealerships by the end of March, and 100 dealerships by 2001 to sell its Accord saloon. It will not make any equity investment in the network.

The move will give Honda an edge over other Japanese carmakers competing for a slice of the Chinese market. Toyota, the industry leader, saw its sales in China shrink 10 per cent last year, from 30,000 cars to 27,000 cars, and exports its cars from Japan. Mitsubishi Motors has experienced difficulty in its Chinese business, because of the high cost of local parts.

It also underlines the growing gap between troubled and growing companies in the Japanese car industry. Both Nissan and Mitsubishi are slashing production capacity and cutting jobs overseas, while Honda and Toyota are building new factories and opening dealerships.

Last year, Toyota began construction of a plant in Valenciennes, in northern France.

Honda said it aimed for sales of 10,000 cars in China this year and 30,000 cars by 2001. The cars would be manufactured by local subsidiaries, Guangzhou and Dong Feng Motors, although some models would be shipped from Japan. The two companies began production earlier this month at a factory in Guangzhou, in southern China.

The announcement comes just before Honda announces its third-quarter results later this week, when the group is expected to report continued success despite the difficult conditions in the Japanese market. However, because the company relies on exports for 62 per cent of sales – the highest export ratio of any of the big five carmakers – performance could be hurt by the strengthening of the yen since last October, analysts said.

● *Analysts forecast* Honda Motor is set to raise its group profit for the year to March 31, mainly because of robust sales in the US, Reuters reports from Tokyo.

Net profit for October-December is estimated at a record Y76bn ($657m), topping Honda's estimate of Y66bn, Takaki Nakanishi of Merrill Lynch said.

Honda posted a group net profit of Y65.2bn in October-December 1997.

Credit crunch forces Japanese finance houses to sweat

As year-end looms companies hope asset-backed securities can fix balance sheets, write **Khozem Merchant and Naoko Nakamae**

With the financial reporting season looming, many Japanese finance houses are looking to repair their battered balance sheets. One way is to launch asset-backed securities, which allow consumer finance companies, among others, to remove assets from their balance sheets.

These assets, typically equipment leases, car purchase loans and other types of consumer receivables, are transferred to a "special purpose vehicle", which stands legally at arm's length from its originator. The SPV launches a bond, often rated AAA because it is backed by the collateral of the asset's cash flow (such as repayments on car loans).

In addition, Japanese banks, such as Tokyo Mitsubishi and Sumitomo, are securitising chunks of their loan portfolios. By removing assets, such as loans, from their balance sheets, banks free up regulatory capital previously put aside as a provision against default. This enables them to meet Basle standards and to *improve return on capital.*

Recent landmark legal changes, which have significantly eased rules on issuance, are likely to spur activity. But the immediate cause behind a recent pick-up in issuance is the deadline for the end of the financial year on March 31, when banks must post capital adequacy ratios in line with global standards, and trading houses must meet self-imposed earnings targets. With Japan in recession neither target is assured.

This deadline is forcing banks, whose troubles lie at the heart of Japan's ruinous economy, to pressure customers, such as consumer finance companies or the lending arms of big manufacturers, the most active issuers of ABSs, to repay loans.

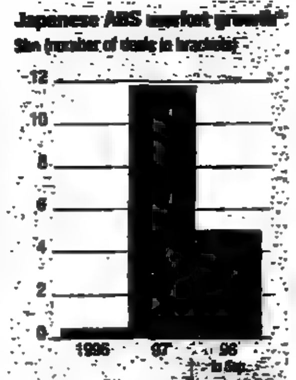
This credit crunch has persuaded many non-bank financial companies such as Ricoh Leasing, part of the office equipment company, and Mitsubishi Auto Lease Credit, which finances sales of new Mitsubishi cars, to choose ABSs. "We're trying to use the most advantageous method to raise funds," says Ikuo Ohno of *Ricoh Leasing*, which recently launched a Y320m (US$2.8m) asset-backed bond.

In the past two weeks, about a dozen domestic and international deals have been launched totalling about $2bn. Alexander Batchvarov, head of international ABS research at Merrill Lynch, says $20bn-$25bn worth of ABS deals are in the pipeline. New issuance is forecast to rise 50 per cent this year from $12.5bn in 1998, according to a report published this week by Moody's Investors Service, the US rating agency.

The recession and credit crunch should make the ABS a more viable option for issuers seeking capital and the opportunity to diversify funding sources. This trend, also known as securitisation, will continue given the difficulties experienced by poorly-rated companies in trying to raise corporate bonds.

"It's never been that easy for these non-bank financial institutions to raise funds, but with the credit crunch its even worse," says Hidemi Moue at IBJ Securities in Tokyo. "Most of the leasing companies either aren't rated, or if they are, they have very *low ratings* – so they can't issue [corporate] bonds. That's why they're using ABSs to raise money."

Japanese ABS [illegible] growth
Size (number of deals in brackets)



Source: Merrill Lynch

As the economy remains sclerotic, so the credit rating of many companies which manage cash flows from assets in SPVs – such as Japan Leasing Corp which collapsed last October – will worsen. The troubled consumer sector, the source of many leases on cars and so on, will increase pressure on leasing companies and fuel the appeal of using existing balance sheet assets to support new financing.

"Removing assets from balance sheets effectively allows Japanese companies to maintain as well as increase their business without necessarily redeploying fresh capital, an expensive option at the moment," says Tamara Adler at Deutsche Bank.

Improved market sentiment has accelerated issuance. The Japan premium – the additional protection demanded by investors to take on Japanese risk – has narrowed. Last year, the premium rose sharply on concerns over the banking system and the economy. A lower premium makes it more attractive to issue ABSs. An over-subscribed asset-backed issue by Industrial Bank of Korea revealed a healthy appetite for similar Japanese paper, says Paul Burke, head of global securitised finance at Chase Manhattan in Hong Kong.

The increased issuance comes against a background of wide-ranging regulatory changes. These include the passage of laws enabling the perfection of transfer interests in securitised assets. A rule stipulating that only lawyers may manage cash-flows from leases in SPVs has been reversed. It was introduced because of the fear organised crime would infiltrate consumer finance.

The relaxed regulations are expected to pave the way for the launch of the country's first mortgage-backed security. But regulatory blurs remain. Bankers says it is still unclear, for instance, whether non-bank finance companies may use *the proceeds of ABSs to lend* to new car buyers or whether the monies raised must be used to repay banks.

Analysts expect the Japanese market to consolidate its position as the second biggest after the US. One test of its stability was the bankruptcy of Japan Leasing, which was the originator and servicer of several securitised lease portfolios. The fall-out was contained, showing the strength of a market barely two years old.

"People have been saying that this market is taking off for years. But this time it is different – there's serious volume (out there)," says Adrian Pizer, head of asset-backed and principal finance at Warburg Dillon Read in Tokyo.

Nevertheless, growth may be held back by a confusing regulatory system, a shallow domestic investor base and modest international investor appetite for Japanese risk.

Perpetual says new law has hit funds business

By Gwen Robinson in Sydney

The introduction of legislation in Australia reducing the role of trustees in managed investment schemes has triggered big changes in the funds management industry, said Graham Bradley, managing director of Perpetual Trustees Australia.

Perpetual, a funds manager and trustee company, yesterday reported an increase of nearly 27 per cent in net profit to A$14m (US$9m) in the six months to December.

The result exceeded expectations following Mr Bradley's warning last year that the government's introduction of the Managed Investments Act in the current year to June, would cause Perpetual to lose about A$25m in *revenue over three* years.

Under the new legislation, managed investment schemes such as unit and property trusts must combine the previously separate roles of manager and trustee in a single "responsible entity". Trustee services were one of Perpetual's main income streams.

Mr Bradley said fund managers had been slow to make changes in the lead-up to full implementation of the act by July 1. "As yet, there has been little loss of revenue resulting from the Managed Investments Act, but this is beginning to happen."

Perpetual's recent moves reflect responses by small and medium sized investment managers to diversify their traditional sources of revenue by moving into other areas.

To prepare for expected losses in the next two years, Perpetual had undertaken its first debt financing arrangements for acquisitions in the period, including Wilson Dilworth, a superannuation specialist, and the local share registry division of Coopers & Lybrand.

Perpetual hoped to further offset expected losses by taking on the role of "responsible entity" for funds that did not want to deal with the complexities and regulatory demands of the new structure. Perpetual would then engage the funds as contracted fund managers, Mr Bradley said.

The company also invested in other areas of business in the period, including expansion of its private client division and the launch of a jointly managed fund with Fidelity Investments, of the US.

Telstra surprises markets with choice of new head

By Gwen Robinson

Telstra, the Australian telecoms group, surprised markets yesterday when it announced that Ziggy Switkowski would replace Frank Blount as chief executive from March 1.

Mr Switkowski is group managing director for international and business affairs at the company.

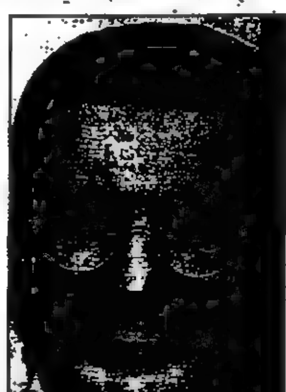
The US-born Mr Blount indicated early last year that he would return to the US in early 1999, after seven years as Telstra's chief executive.

However, the early morning announcement was unexpected, coming eight days before a board meeting scheduled to consider the issue.

Investors appeared to be more unsettled by the choice of Mr Switkowski, a former nuclear physicist who joined Telstra 18 months ago after a brief stint as chief executive of Optus, now Cable and Wireless Optus, Telstra's main rival.

On the stock market, Telstra shares fell nearly 2.5 per cent to close at the day's low of A$8.20.

Analysts said the fall was due partly to earlier perceptions that Mr Switkowski was the weakest of four internal candidates for the job and hopes that Telstra would recruit a senior executive from the US telecoms industry.



Zygmunt Switkowski, chosen as Telstra's new chief executive

Heavy profit-taking in the telecoms sector was also a factor, following a recent record run and an announcement on Monday that News Corp and Publishing and Broadcasting, Australia's two largest media companies, would buy about A$215m (US$139m) worth of shares in One.Tel, an internet company.

Mr Switkowski, 50, spent 18 years at Kodak Australasia, working his way up from research scientist to chairman and managing director of the Australian arm of Eastman Kodak of the US.

In that period he was transferred to the Eastman Kodak head office in New York as a strategic planner, and was credited with turning around Kodak's Australian operations.

Concerns were also raised about the future of the three other internal candidates, including the finance director, Paul Rizzo.

David Hoare, chairman, and Mr Switkowski said yesterday they had received commitments from the three to remain in the management team.

The company, which has a market capitalisation of A$37bn (US$23.9bn), is two-thirds government owned. John Howard, the prime minister, hopes to float another 16 per cent later this year, but faces stiff political opposition.

Telstra is also under pressure from regulators to reduce fees and allow competitors greater access to its local call networks.

Telecom New Zealand to seek new chief executive

By Terry Hall in Wellington

Telecom New Zealand yesterday announced it was seeking a new chief executive and forecast revenue growth following static earnings figures for 1998.

Roderick Deane, chief executive, announced that he would step down from the post after seven years, and become chairman after September 31, replacing Peter Shirtcliffe, 68, who is retiring.

The chief executive's position, heading New Zealand's biggest company, is to be advertised internationally, although Mr Deane said there were strong internal candidates. To ensure continuity, he will become executive chairman after September 30 if a successor has not been found.

Mr Deane has been at the centre of restructuring New Zealand's banking, civil service, electricity and telecommunications industries over the past 20 years. He sprung to prominence in the 1970s and early 1980s, when, as chief economist of the Reserve Bank, he clashed repeatedly with Sir Robert Muldoon, interventionist prime minister of the time.

Mr Deane was involved in the reform movement of the 1980s as a respected adviser to the Labour government, including handling the 1984 financial crisis, the subsequent floating of the New Zealand dollar, and securing the independence of the Reserve Bank.

Telecom New Zealand yesterday reported static after-tax earnings of NZ$598.1m (US$327m) for the nine months to December 31, although directors said there were signs of a substantial improvement towards the end of the period in line with data suggesting a recovering economy.

Mr Deane said that in the last quarter – when after-tax earnings rose by 1.3 per cent to NZ$201.8m – Telecom had achieved impressive growth in key areas in spite of a depressed economy and tough competition, especially in the tolls market.

The company achieved a record number of new mobile phone customers during the quarter, and saw strong growth in international calls. It also made rapid progress in becoming an online company, with its X-tra service now the biggest internet company in the southern hemisphere. E-mail usage by X-tra customers is doubling every three months.

New Zealanders doubled their use of international calling in December, and Telecom lifted its market share from 63 to over 70 per cent of this market.

Revenue rose by 1.2 per cent in the nine months to NZ$2.5bn, while operating expenses fell 0.2 per cent to NZ$1.5bn. The company is increasing its dividend payout for the nine months by 9.5 per cent to a total 34.5 cents a share.

NEWS DIGEST

JAPANESE ELECTRONICS

Pioneer surplus better than expected

Pioneer, the Japanese electronics group, posted better than expected pre-tax profits for the third quarter ending in December. But the underlying trend remained down as the group struggled with the yen's strength against the dollar, weak demand for laser discs and the dire state of consumer electronics demand in Japan and Latin America.

It warned group sales for the full year would reach only Y580bn (US$5bn) against its previous target of Y600bn. The forecast was based on an assumption the dollar would average Y115. Pioneer was pessimistic about the business climate in the coming months. "Economic conditions in Asia, Central America and South America remain sluggish and price competition is increasing," it added.

Consolidated operating profits fell year on year by 18.5 per cent during the quarter to Y3.7bn on sales down 1.2 per cent at Y147.3bn. Pre-tax profits actually rose, by 11.3 per cent to Y5.12bn, because of profits on foreign exchange profits and increased income from optical-disk patents. Net level earnings fell 15.8 per cent to Y2.28bn.

The currency factor pulled down sales by Y2.9bn, the company said. Brokers Dresdner Kleinwort Benson said for every yen the Japanese currency appreciated against the US dollar Pioneer lost Y500m in operating profits.

Turnover at the electronics division rose 1.8 per cent year-on-year to Y139bn, because of brisk sales of car navigation systems, car stereos with mini-disc players, and DVD-video players. The audio/video software division's sales fell 34.6 per cent to Y8bn. **Paul Abrahams, Tokyo**

TDK disappoints

TDK, the Japanese electronics parts group best known for its cassette tapes, yesterday announced results well below expectations for the third quarter ending December 31. *The weak results stemmed from disappointing sales vol*umes and a fall in prices, the company said. It revised down its forecasts for the year ending in March. Operating profits would be Y75bn ($649m) against its previous forecast of Y81bn on sales of Y675bn against its earlier prediction of Y700bn.

Consolidated group sales during the quarter fell 11.7 per cent to Y167.9bn. Operating profits were down 33 per cent at Y20bn, while pre-tax profits tumbled 49 per cent to Y16bn. Net profits fell 12 per cent to Y10.7bn. Brokers Warburg Dillon Read had been expecting pre-tax profits of Y25bn on sales of Y185.5bn. **Alexandra Nusbaum, Tokyo**

GOLD MINING

Normandy plans new projects

Normandy Mining, Australia's largest gold producer, said yesterday it was comfortably placed after recent rationalisation to undertake further development of gold projects in Australia and overseas, including Ghana and Greece.

Its recent A$630m (US$407m) hedge book-value realisation and the A$140m sale of its Goldfields pipeline stake in western Australia had left it with cash on the balance sheet of A$940m as well as a further A$700m available in undrawn credit lines, the company said.

Normandy earlier reported a 28 per cent fall in net profit to A$38m for the six months to December. The result included an A$21m abnormal loss on the writedown of its Mt Charlotte mine in Western Australia. But net profit in *the full year to June would be roughly in line with the pre*vious year, said Colin Jackson, executive general manager. Net profit last year was A$119m.

Last year the company warned low zinc prices and the introduction of a gold royalty in Western Australia would weigh on profits. In the half-year to December, the gold division's operating contribution rose nearly 9 per cent to a record A$232m, but the metals division fell from A$37.3m to A$13m. **Gwen Robinson, Sydney**

NEW ZEALAND

National Bank lifts profits

The National Bank of New Zealand, a wholly owned subsidiary of Lloyds Bank of the UK, turned in a sharply improved performance in the year to December 31, with a 58.7 per cent rise on 1997 in after-tax profit to NZ$200m (US$109m). Pre-tax profits rose 53 per cent to NZ$274m. The results included four months' trading from Countrywide Bank, bought from Bank of Scotland last year. This made National the second biggest New Zealand bank in terms of assets. However, the National Bank's bottom-line profit was trimmed to NZ$117m after an NZ$83m provision for merger costs. **Terry Hall, Wellington**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

MasterCard in management reorganisation

By John Authers in New York

MasterCard International, the global payment card association, yesterday decided on a sweeping management reorganisation designed to make it more competitive.

MasterCard has roughly half as many cards in circulation as Visa, its larger rival, and the move appears to be part of an attempt to change its strategy so that it would allow issuing banks more freedom in marketing their cards.

Earlier this month, two directors of Citigroup, the world's largest issuer of Visa and MasterCard cards, quit the board of Visa. John Reed, Citigroup co-chief executive, had requested a change in the association's rules to allow the Visa logo to be moved to the back of cards.

Citigroup is now in discussions with MasterCard, believed to centre around the marketing concessions it first demanded from Visa.

Under MasterCard's reorganisation, all its regional and functional heads will report directly to Robert Selander, chief executive. These will include one "customers" division, to be headed by Alan Heuer, who is currently head of the US region. All global marketing officials and regional heads will report directly to him.

A second division will group all of MasterCard's technology resources. There will also be divisions to cover central resources, strategic ventures and human resources, all directly answerable to Mr Selander.

The moves are meant to make it easier for MasterCard to help member banks market their own brands.

Mr Selander said his strategy for success was "to sharpen our focus on serving key members in our top markets and strengthen the delivery and quality of the core services we provide to members".

The measures appear to make it easier for MasterCard to package products as member banks want them. It could therefore be positioning itself to provide cards for large banks to trade under their own brands.

MasterCard firmly denied the plan would cause any significant staff reductions. It refused to comment on speculation it was planning to cut members on its board, which is much larger than Visa's.

NEWS DIGEST

INSURANCE

XL Capital to purchase NAC Re in $1bn deal

XL Capital, the Bermuda-based insurer, said yesterday it had agreed to buy NAC Re, the US reinsurer, in a stock deal valued at more than $1bn. NAC Re, which is based in Greenwich, Connecticut, is the eighth largest reinsurer in the US. It has been at the centre of takeover speculation for months as the insurance industry undergoes intense consolidation. XL's Bermuda neighbour, ACE, last month agreed to buy the property-casualty insurance business of Cigna for $3.45bn in cash. NAC Re has been considered an attractive takeover target because it has strong relationships with its customers, even though it uses brokers to bring it business.

XL said it expected the deal, which is set to be completed by late in the second quarter or early in the third quarter of this year, to have a positive impact on its earnings. The boards of both companies have voted unanimously in favour of the deal, which is subject to approval by stockholders, antitrust and other regulatory approvals.

Nicholas Brown, NAC Re chief executive, will be chairman, president and chief executive of NAC Re, which will keep its name. Ronald Bornhuetter, NAC Re chairman, and another member of NAC Re's board will be invited to join the XL board.

XL Capital and NAC Re would have had combined assets of $13.3bn, revenues of $2.3bn and a market capitalisation of about $8bn at the end of 1998. Under the terms of the transaction, shareholders of NAC Re will receive 0.915 XL shares for each NAC Re share in a tax-free exchange, which will be accounted for as a pooling of interests. Based on XL's Friday closing price of $60.50, the deal values each NAC Re share at $55.36. With about 20.8m diluted NAC Re shares outstanding, that values the deal at about $1.15bn.

XL Capital was represented by Donaldson, Lufkin & Jenrette and Wasserstein Perella. NAC Re was advised by MorganStanley Dean Witter, CIBC Oppenheimer and SBC Warburg Dillon Read. **Reuters, New York**

AIRLINES

Delta to buy ASA Holdings

Delta Air Lines, the third-largest US airline, said yesterday it had signed a definitive agreement to buy ASA Holdings, parent company of Atlantic Southeast Airlines, for about $700m. Atlantic Southeast is a large regional carrier with its main hub in Atlanta and flies to 21 US airports. ASA, which was founded in 1979, has a fleet of 88 aircraft with about 2,700 employees.

Under the terms of the deal, Delta will make a tender offer to purchase all outstanding common shares of ASA Holdings for $34 a share in cash. ASA Holdings has 28.5m common shares outstanding. Delta already owns nearly 8m million of those ASA shares.

Delta said ASA would become a wholly owned unit. The regional carrier would keep a seperate workforce and salary and benefits structure. Its labour agreements with the Air Line Pilots Association and the Association of Flight Attendants would remain in place, Delta said. The transaction will have a "minimal impact" on ASA employment, and there will be "no impact" on Delta employment, it added. Revenue gains are expected to come from more efficient operations, market growth, and better use of aircraft at both airlines. Delta expects the transaction to be accretive to earnings in the first year of operations.
Reuters, Atlanta

INDUSTRIAL PRODUCTS

SPX reports $41.7m deficit

SPX, the Michigan-based industrial products and vehicle components group that took over the larger General Signal in a $2bn deal last year, yesterday reported a $120m loss for the final quarter of 1998, leaving it with a $41.7m deficit for the year. A year ago, SPX made $32.6m in the final quarter and $129.6m in the full year.

The deficit was due to restructuring by SPX after the acquisition, which included closing 25 manufacturing, sales and administrative offices as well as the main headquarters, and cutting about 1,000 jobs. This resulted in a fourth-quarter charge of $204.4m. Ahead of the charges, SPX said it earned an underlying 65 cents a share in the final quarter, ahead of market expectations, and was looking at about $4.90 in 1999. SPX shares edged higher in early trading yesterday, up $1/4 at $62 5/8.

SPX had made clear that it wanted to grow by acquisition long before the takeover of General Signal. Yesterday John Blystone, SPX chairman, said the integration plan was "on schedule" and it had established four main divisions: industrial products, technical products, service solutions, and vehicle components. Additional restructuring this year is estimated to cost a further $20m.
Nikki Tait, Chicago

EQUIPMENT MANUFACTURING US GROUP SUFFERS DECLINE AS FARMERS REACT TO LOWER COMMODITY PRICES

John Deere hit by reduced spending

By Nikki Tait in Chicago

Sliding demand for agricultural equipment, as farmers rein back spending in response to low commodity prices, caused first-quarter profits at John Deere to fall to just $49.7m, from $203.3m in the same period a year earlier.

The US company, one of the biggest suppliers of farm and construction equipment, said operating profit on the agricultural side was barely one-tenth of the level a year ago.

Demand for large tractors and combines was "severely affected", and production cuts meant manufacturing assets were used less efficiently.

Total agricultural equipment operating profit was just $25m, compared with $206m a year ago, while the smaller construction equipment side saw profits slide from $64m to $12m.

Overall, sales for the quarter were down by 14 per cent at $2.46bn, with global physical volume falling 18 per cent.

The company's forecast for the remainder of 1999 was equally bleak. It expects net cash income among US farmers to fall about 9 per cent this year, in spite of the $6bn package approved by the US Congress last autumn.

"As a result, retail demand for farm equipment is projected to decline by 20-25 per cent in North America this year," Deere said, "with declines of 10-15 per cent in other major markets".

By contrast, construction machinery sales were seen remaining at "near 1998 levels". But the drought of buyers on the farm equipment side would probably mean that Deere's sales fell by a further 13-15 per cent in volume terms in 1999, compared with 1998, with second-quarter sales down by about 13 per cent year-on-year.

Despite this gloomy outlook, Deere's shares rallied early yesterday, gaining $1 15/16 to $34 5/16.

Analysts have been well aware of what one called a "buyers' strike" in farm equipment, seeing the main issue as the extent to which pricing discipline among equipment manufacturers would hold, preventing a repetition of previous severe "down-cycles". Deere's first-quarter earnings per share, at 21 cents, were well ahead of market forecasts, which averaged about 16 cents, according to the First Call research firm.

The company itself pointed out that in the face of difficult market conditions, all businesses had continued to operate in the black, and that production schedules had been set below the level of retail demand.

As a result, trade receivables declined during the quarter.

Clearer pictures may blur market

New Pentium chips will raise the bar on PC performance, writes **Louise Kehoe**

Intel, the world's leading semiconductor manufacturer, will today launch a new generation of Pentium microprocessors with a worldwide advertising campaign that will stress the internet capabilities of PCs built around the new chips.

Craig Barrett, Intel chief executive, is set to unveil the much-anticipated microprocessor products at an Intel event in Silicon Valley today at which some 250 computer, software and internet companies are expected to demonstrate new products and services using the Intel technology.

The new Pentium III chips will further raise the bar on PC performance. In particular, the new chips will bring full-screen, full-motion video to the PC screen, blurring the distinctions between television and internet services. PCs may also, for the first time, become truly competitive with purpose-built computer game machines that plug into the TV set.

The new chips are destined for use in high-performance desktop PCs aimed at both consumers and business users, the first of which are expected to be available from leading manufacturers by the end of this month.

Hewlett-Packard is expected to revamp its Vectra line of business PCs around the new chips. Dell Computer is planning high-end models, while Compaq is expected to add the Pentium III to its top-of-the-range Presario. IBM, Gateway and Micron are expected to demonstrate PCs based on the Intel chips today.

Key to the higher performance of Pentium III is a new set of microprocessor instructions – the computer code built into the chip – that enhances graphics capabilities. However, users will not see the full benefit of these new internal instructions until software developers make use of them to create new applications.

Intel says more than 200 games and other software programs will be ready to take advantage of the new instruction set when PCs based on Pentium III are introduced later this month, but it is not clear when these programs will become available in retail stores.

Pentium III PCs will also be well suited to video and audio broadcast via the internet – an increasingly popular application.

Chip off the block: Craig Barrett, Intel chief executive, will unveil the new Pentium microprocessors AP

Internet retailers are eager to present video pictures, and entertainment web sites are expected to incorporate more video and audio clips.

In a business setting, Pentium III PCs promise superior graphics capabilities that might be used, for example, to display three-dimensional images of products, or to broadcast conferences via the internet.

However, to get the full benefit of Pentium III's capabilities in internet applications, users will need broadband access to the internet, either via a cable modem or a high-speed telephone line.

In effect, the Pentium III, when combined with high-speed internet links, enables any web site publisher to become a broadcaster, challenging established TV broadcasters in much the same way that internet publishing has already brought changes to the traditional news publishing industry.

Although most analysts expect Pentium III to extend Intel's leadership in the PC microprocessor market, another feature of the new chips has created some controversy. Intel has included an identifying number that can, for example, be used to authenticate the source of electronic mail.

Privacy groups have objected to this feature, and are seeking support for a boycott of Pentium III PCs. Intel has responded by changing its plans to ship Pentium IIIs with the ID feature turned on. Users will have the option not to activate the feature.

With Pentium III, Intel is continuing the established cycle of rapid obsolescence in the PC market. The company also aims to boost demand for high-performance PCs, which has been dulled over the past year, particularly in the consumer segment, by the widespread availability of cheaper "basic" PCs, now selling for as little as $400 in the US.

Pentium III, which will sell at a premium price, is enabling Intel to compete more aggressively in the low-end PC market by cutting prices on lower-performance chips without sacrificing margins.

Last week Intel slashed prices on its Celeron microprocessors used in low-end PCs, by up to 24 per cent, prompting Advanced Micro Devices, its chief PC microprocessor rival, to take similar action.

Net stocks require 'different valuation'

By Paul Taylor

Traditional valuation models should not be applied to internet start-ups, Eckard Pfeiffer, chief executive of Compaq Computer, the world's second largest computer group, said yesterday.

"The internet is a revolution that is happening and is changing the world, so you cannot measure what is happening here with the metrics of what we are used to," he said.

Mr Pfeiffer's comments, made during Compaq's annual European press conference, contrast sharply with those made recently by other business leaders – including Bill Gates, Microsoft chairman, and Rupert Murdoch, News Corp chief – who have suggested internet companies are overvalued.

Mr Pfeiffer noted that the dawn of the personal computer era in the early 1980s had led to the formation of "an entirely new infrastructure of companies" including Microsoft, Oracle, Apple Computer and Compaq.

"That was nothing compared to what is happening with the internet . . . these companies on the leading edge are rewarded with a completely different financial valuation," he said.

Mr Pfeiffer added: "It is not multiples of earnings because there are no earnings. It is multiples of revenues. It is a jockeying for position – who will be the leaders of the internet era, that is what matters."

The Compaq chief executive said this was one of the reasons that Compaq was continuing to invest in Alta Vista, the internet search company it acquired with its purchase of Digital Equipment. Last month Compaq announced plans to turn Alta Vista into a leading internet portal or internet gateway site ahead of a planned flotation.

Mr Pfeiffer yesterday declined to be drawn on either the timing of such a float or Alta Vista's potential valuation.

Nortel Networks claims data lead

By Edward Alden in Toronto

Nortel Networks, the Canadian telecommunications and data networking group, claimed yesterday it would be the first to bring to market next-generation technology that will allow telecoms carriers to carry data traffic efficiently without abandoning existing voice networks.

The company said trials were under way and the first shipments of the new products would be made in the fourth quarter.

Ian Craig, president of Nortel's carrier solutions division, said the new package of packet telephony technologies would allow telecoms carriers to cut 50 per cent off the cost of developing a separate overlay network to carry data traffic.

In addition, operating costs would be reduced by as much as 45 per cent because carriers would not have to operate two separate networks.

The volume of data traffic, driven by the explosive growth in internet usage, has recently overtaken voice traffic in North America – growing at 10 times the rate of voice.

Telecoms carriers have been scrambling to develop new networks based on packet switching rather than circuit technology to handle the growing data traffic.

But carriers have been reluctant to phase out existing voice networks.

These represent tens of billions of dollars in sunk costs and can handle an array of lucrative call service features such as centrex, toll-free numbers and multimedia conferencing.

Nortel, which purchased US data networking company Bay Networks last year, has been leading several large equipment manufacturers in trying to develop technology that will allow carriers to handle both their voice and data traffic requirements simultaneously.

Maribel Lopez, analyst with Forrester Research in Boston, said Nortel was offering an interim solution that would be very attractive to carriers.

She added it would probably prompt other equipment manufacturers, including Lucent and Cisco, to develop similar hybrid solutions.

US demand helps Cemex boost sales

By Andrea Mandel-Campbell in Mexico City

Cemex, the Mexican multinational that is the world's third-largest cement producer, beat market predictions with a strong fourth quarter bolstered by dynamic sales in Mexico and the US and currency gains.

Fourth-quarter operating income jumped 24 per cent to 2.98bn pesos ($300m), with cement volumes in Mexico growing 6 per cent, buoyed by a stronger peso.

US demand boosted sales and margins, as Cemex brought in low-cost cement from China for resale in the US. In Spain, Cemex's other main market and home to holding company Valenciana de Cementos, low interest rates fuelled a surge in residential housing.

Pre-tax profits grew by 42 per cent in the quarter to 2.788bn pesos, while earnings per share were 54 US cents, up from 30 cents in the 1997 fourth quarter.

"Cemex's developed markets are very strong and its main emerging market, which is Mexico, is doing better than the rest of Latin America," said Guillermo Serrano, cement analyst at Santander bank in New York.

In Asia, Cemex has spent more than $600m on acquisitions. It has raised its stake in PT Semen Gresik of Indonesia and Rezal of the Philippines, and acquired a 99.9 per cent share in Philippine manufacturer, APO Cement.

The company has commitments to repay $800m in debt by the end of 1999.

US buy-out house eyes Electra Fleming

By Katharine Campbell

Clayton, Dubilier & Rice, a US buy-out house expanding in Europe, is thought to be interested in acquiring Electra Fleming, the management company of Electra Investment Trust, for which 3i has made a bid approach.

Clayton, Dubilier, which is reckoned not to be interested in the assets of the trust, is believed to be meeting Fred Vinton, chairman of Electra Fleming, and Hugh Mumford, managing director, tomorrow.

Christopher Mackenzie, parter of Clayton Dubilier and managing director of the London operation started last year, refused to comment on any discussions. But, he said: "There is a a longstanding and very cordial relationship between Electra and Clayton, Dubilier. We have a deep respect for each other's management teams." Electra Investment Trust has also invested undisclosed amounts in two recent CD&R private equity funds.

However, any approach by the US house may depend on the fate of the trust, which has promised its shareholders a solution that will deliver them "full value".

One possible next step is that the trust proposes a wind-up of its assets over three to five years – which would appear to leave Electra Fleming managers in a position to negotiate a separate future, depending on how the idea of the wind-up was received by institutional shareholders.

Electra Fleming is a 50/50 joint venture between EIT and Robert Fleming, the investment bank. It manages the trust under a three-year contract thought to be worth £15m ($24m) a year.

Michael Stoddart, chairman of EIT, yesterday told institutional shareholders they could expect "an indication of a way forward" at today's annual meeting.

A person close to Electra said the trust had been working on "a scheme of its own" for narrowing its persistently wide discount since well before the 3i approach, but the latter had been a catalyst for "speeding the process".

3i, which has been waiting for the annual meeting before deciding on its next move, had initially wanted to acquire both the trust and the Electra Fleming managers. But the latter have baulked at the idea of joining what they see as a large inflexible organisation with a much less attractive remuneration structure. 3i is understood to be prepared to buy the assets without the managers.

A more remote possibility is that a US group bids for both the trust and its managers. One of the few likely candidates is Blackstone Group, the investment firm. American International Group, the US insurer, is a large investor in Blackstone private equity funds, and could itself be interested in acquiring the assets.

Clayton, Dubilier and Electra Fleming would be a good fit, according to industry observers. They have similar investment styles, both favouring complicated deals.

COMMENT

Boots

Boots is right to stop issuing new shares to employees when they exercise options. Given that the retailer's after-tax cost of debt is just 4 per cent – half that of equity – borrowing to cover save-as-you-earn schemes with bought-in shares clearly makes more sense than issuing new paper. But the decision does not, as Boots suggested yesterday, make the real cost of option schemes completely transparent to shareholders.

This is, after all, only a partial reform. Companies have for some time bought in shares to satisfy executive options. They have not done so for employee plans, which confer the right to buy shares at a discount to the market price, because this would involve a charge to profits. The charge covers the difference between the exercise and market prices. In reality, this is not so painful – about £20m a year in Boots' case, slicing 3 per cent off profits. However, thanks to savings on tax and dividends, the effect on earnings is neutral.

But even if others follow Boots' lead, so what? Not all companies will want to cover options with existing shares, particularly fast-growing companies that need more, not less, equity. In any case, the move does not give shareholders a complete picture of what they are giving away. The P&L charge for covering employee options does not reflect the full economic cost of providing employees with this right.

Securitisation

If pop stars can sell bonds to the market backed by the income from their melodies, why not manufacturers? One idea doing the rounds is intriguing. Manufacturers could shift their inventories off balance sheet into vehicles owned by banks. These banks could then securitise the income stream from these receivables.

As ideas go, this one would be far tricker for the capital markets to digest than the predictable income stream thrown off by financial products, such as mortgages or credit card payments, where investors principally assess credit risk. Inventory financing, however, will require analysis of the demand cycle, as well as of how the goods get from A to B. There may be an opportunity here for some, but whatever asset class this idea ends up as it is clearly not one for widows and orphans.

Boots to buy SAYE shares in the market

By Susanna Voyle

Boots, the retail chemist and pharmacy chain, has reignited controversy over accounting standards for employee share option schemes with the announcement that it is radically reforming its practices, which could lead to a pre-tax charge of £63m ($103m) this year.

The company said it would only buy shares in the market to satisfy demand from save-as-you-earn employee schemes. The charge against profits in future could be £30m a year.

Boots is thought to be the first UK company to adopt fully this approach to SAYE share option schemes, which the Accounting Standards Board tried to introduce in 1996. Companies generally issue new shares to satisfy employee schemes, which are accounted for on the balance sheet and dilute existing shareholders' equity.

Yesterday shareholders and analysts welcomed the move saying that it was a more transparent accounting policy and would be a difficult precedent for other companies to ignore. Boots shares closed 47p higher – or just over 5 per cent – at 941p.

"Boots deserve praise. I think they were nervous about breaking ranks so they should be complemented for their courage", said one of the group's leading shareholders. "I would say what they are doing is positive because the company numbers will be more reliable and you won't have what they call in the US remuneration by stealth."

The 1996 ASB plan to reform SAYE option accounting rules was abandoned after several leading FTSE groups – including retailers Tesco and Marks and Spencer – complained about being hit by a profit and loss charge and said this could mean the end of such schemes or the removal of staff discounts.

The ASB plan and Boots' new strategy mean charging the difference between the purchase price of the shares and the exercise price paid by employees who have saved.

More than 90 per cent of FTSE-100 companies have SAYE share schemes.

David Thompson, Boots finance director, said the move was part of the group's long-term strategy to restructure its balance sheet. The new policy would ensure that shareholders' funds were not diluted and would put more debt on the balance sheet – but while earnings would be hit, total shareholder returns would not suffer.

Mr Thompson said the decision turned off the last tap of new shares for Boots as the group has already abandoned the policy of issuing scrip dividends.

Slow trading at Low & Bonar

Jim Heilig: facing aggressive price competition Jason Orton

By Virginia Marsh

Low & Bonar said yesterday that trading had got off to a slow start this year and that it was facing pricing pressure, especially in its core packaging business.

Analysts cut pre-tax profit estimates for this year by more than 15 per cent. ABN Amro, the company's broker, reduced its forecast from £48.5m to £40m ($65m).

The shares dropped 15p to 165p, down from 420p last June.

Jim Heilig, chief executive, said: "Christmas activity was not so buoyant both in the UK and on the Continent and as a result customers have been loath to load up now. Our order books are not as strong as we would have liked.

"There is excess capacity in European cartons which is causing some pretty aggressive price competition."

The company, which also has plastics and specialist materials businesses, said the collapse in sales of packaging to Russia and some other eastern European markets had freed extra capacity.

The plastics business, which makes products such as moulded vehicle parts, had been hit by a slowdown in sales of tractors and other off-road vehicles. Flooring, part of specialist materials, had suffered from poor conditions in UK retailing and in Asia.

The company reported a pre-tax loss of £3.44m (£30.2m profits) on sales of £404m (£439m) in the year to November 30. Before goodwill and exceptionals, profits were £46.2m (£47.5m), in line with expectations.

Losses per share were 11.84p compared with earnings of 19.79p last time. Earnings before exceptionals were 33.2p (35.8p).

Low & Bonar is planning to maintain the final dividend at 11.35p, for a total of 15.85p, a rise of 2 per cent.

Sema says US deal is a priority

By Christopher Price

Strong demand from the telecommunications sector helped Sema, the Anglo-French computer services group, to report a 30 per cent jump in profits from its core operations to £78.9m. The group also said an acquisition to bolster its US operations remained a priority.

Sema, which provides systems integration and software services, scored important contract wins in the telecoms sector with Telecom Italia Mobile and Uni2 of Spain.

The group reported turnover up 19 per cent to £1.25bn. Operating profits, including discontinued businesses, grew from £68.8m to £80.1m. Including a gain on the disposal of its stake in its joint-venture with British Aerospace, total pre-tax profits were £97.8m (£84.1m).

Pierre Bonelli, chief executive, described 1998 as a "pivotal" year. "We have achieved the balance of business we have been working hard towards," he said.

Mr Bonelli said the group's restructuring of its shares last year was also a crucial development, allowing it to operate in the US.

A US acquisition remained a priority. "Many of our big customers want us to handle their global IT requirements and that means we must have a presence in the US." He confirmed that Sema was ready to pay up to $1bn for the right acquisition.

The telecommunications sector was the key area where Sema would like to make its US purchase. The company is looking at potential targets among telecoms service groups, although IT service groups would be considered.

Sema has replaced IBM as the supplier of IT services to the Olympic Games.

Mr Bonelli said the contract would provide a huge boost to Sema's global image.

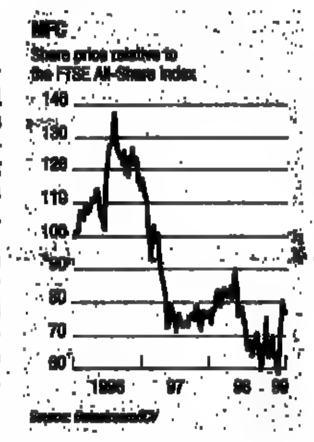
See Lex

NFC considers a 'financial services' move

By Susanna Voyle and Charles Batchelor

NFC, the international transport group, is in talks with banks over plans to create financial vehicles taking ownership of supply chain inventories, which could then be securitised.

The plan, the first of its kind in the UK, would allow Suppliers and manufacturers to move stock off their balance sheets, improving the return on capital, and reduce financing costs.



NFC – which runs the Exel logistics business and the Allied Pickfords moving operations – wants special purpose vehicles created to own inventories while they are being moved from the manufacturer to the final assembly plant.

The SPV's could then securitise the goods – issuing bonds backed by income that had yet to be earned.

Although the market for UK securitisations has been growing – from $4.2bn in 1993 to $12.7bn last year – it is far less developed than in the US.

Ganesh Rajendra, an analyst with Merrill Lynch, said securitisations of inventories and work in progress had been done in the US and one or two had been completed in continental Europe. "Inventory securitisation is seen as potentially a big growth area."

Gerry Murphy, NFC chief executive, said the move would help both suppliers and manufacturers. "There has been a lot of interest. "We have discussed this idea, which amounts to refinancing suppliers' inventory, with banks and financial organisations."

The project is still at an early stage and the group would not name the institutions it has talked to. Initially at least the service is likely to be restricted to high priced inventories. NFC's logistics business is based in five core areas, including automotive.

At present the cost of maintaining inventory, before it arrives for final assembly at a car plant or a computer manufacturer, is born by the small supplier.

If the cost could be shifted to large institutions they could provide the funds at a lower cost, said Mr Murphy, allowing small suppliers to reduce financing costs.

NFC thinks it would win more business by offering financial services as part of its logistics contracts.

It would appeal to its large customers because at present the high financing costs of small suppliers are reflected in the overall price the large manufacturers and the ultimate customers pay.

Barclays searches for opportunities to cut costs

George Graham looks at the UK bank's results as it prepares for a period of change

Barclays yesterday claimed it had good opportunities to increase revenues while reducing costs over the next three years.

If Sir Peter Middleton, who takes over as chairman of the UK banking group in April, and Michael O'Neill, his newly appointed chief executive, achieve their promise of holding costs flat this year, they should be able to improve operating profits at the pre-provision level from the £2.56bn ($4.17bn) reported for 1998.

But the benefit of releases and recoveries from old bad debt provisions is wearing off. Maintaining earnings growth after provisions threatens to be uphill work. Like other UK banks, Barclays has seen its bad debt provisions decline steadily from a peak of £2.5bn in 1992 to £227m in 1997. Last year, the charge rose substantially to £492m, but this included a £153m provision relating to the bank's ill-starred involvement in Russia.

Excluding this, the new provision of £339m represented less than half Barclays' estimate of its risk tendency, or average annual loan loss over the course of the economic cycle, which now stands at £700m. In corporate banking, where loan losses can swing most sharply, Barclays set aside just £17m of net new provisions in 1998 – including £23m of the group's Russian charge. Releases of old provisions no longer required, together with money recovered on debts previously written off, remained at the high level of £155m.

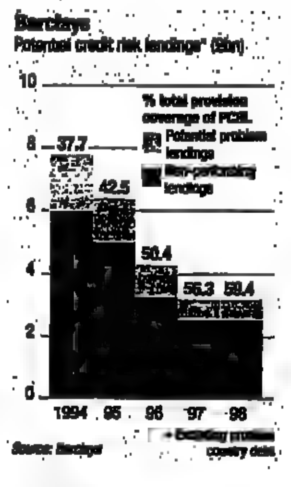
Oliver Stocken, finance director, admitted Barclays had been "pleasantly surprised" by the level of releases and recoveries in the second half of last year.

Even without any increase in bad debts, therefore, the level of net new loan loss provisions must be likely to rise. The question for Barclays, and in different measures for the rest of the banking sector, is the extent to which economic conditions will lead to an increase in bad debts.

Sir Peter said yesterday that Barclays' UK economic forecast was, if anything, for lower growth than the market consensus, which made a technical recession perfectly possible. However, companies and households were in good financial shape, and the economy was entering the downturn with low interest rates: "It's not the scenario where you would expect a major recession. It's not '74, '79 or '90," he said.

Even if the economy suffers a more severe recession, Sir Peter believes Barclays is well positioned to weather the storm. The bank has been increasing its loan book in several areas, with the retail financial services division figure up 9 per cent to £37bn, and corporate loans up 17 per cent to £43bn.

But the bank said it had a good understanding of the risks involved in consumer lending, while increases in corporate lending were concentrated on high grade companies and financial institutions. Sir Peter also said the loan portfolio was much more widely spread than when it entered the last recession.



"In 1990 this looked a bit like the Himalayas. It now looks like Surrey," Sir Peter said.

Barclays is entering the slowdown with a strong capital base. Its shareholders' funds totalled £7.9bn at the end of December, taking its Tier 1 capital adequacy ratio to 7.4 per cent, compared with 7.3 per cent.

The bank estimates it needs capital of £6.6bn-£7bn to support its current business and allow for future growth. As a result it expected to have room to buy back another £500m of its own shares this year.

● The Lazard investment banks have established a corporate advisory business in Madrid, led by Pedro Pasquin, former head of corporate finance in Spain for Warburg Dillon Read. The creation of Lazard Asesores Financieros extends the three banks' presence outside their home markets of the US, France and the UK. They have similar jointly owned operations in Sweden, Italy, Germany and Poland.

Credit risks hurt Paterson

By Dan Bilefsky

Tough trading conditions in China and eastern Europe triggered a sharp fall in first-half profits at Paterson Zochonis, the household products group.

Graham Calder, finance director, said: "Demand for our products is still strong, but doing business has become increasingly difficult because of credit risks."

In the six months to November 30 pre-tax profits fell to £11.4m ($18.6m) against £14.8m, on turnover of £187.5m (£179.3m).

Mr Calder blamed the profits slide on problems in extracting payment in Russia and eastern Europe. "The currency crisis in Russia and Ukraine has worsened in recent months and we are weary of supplying on credit." In China, weak prices and reduced margins forced a strategy revamp.

Mr Calder said exceptional provisions of £6.3m would be made in the second half.

Morse to float with £300m tag

By Christopher Price

Morse Holdings is to take advantage of the buoyant information technology market with a spring flotation likely to value the computer services group at £300m ($490m). It will reap rich rewards for Morse's investors, which was a management buy-out in 1995 for just £46m.

Duncan McIntyre, chief executive, who joined Morse five years ago as finance director, will receive about £6m in cash, and see the remainder of his stake valued at some £18m.

3i will also see a healthy return on its 55 per cent share. It is the venture capital group's biggest UK investment by value. PPM Ventures has a 20 per cent stake. Morse will raise £130m, most of which will go to pay the two principal investors for their holdings.

Some £70m being raised will be new money. Most will be used to pay back debt, with £20m-£30m left to fund expansion. Mr McIntyre said this was likely to involve acquisitions in continental Europe.

Morse's main operations are in the UK and Germany. It is involved in integrating sophisticated computer systems, chiefly in the financial services and telecommunications markets.

In the six months to the end of 1998, adjusted operating profits were £12m, a rise of 22 per cent. Turnover rose 54 per cent to £144.3m.

Merrill Lynch is sponsor, global co-ordinator and bookrunner to the global offering. Credit Suisse First Boston and Warburg Dillon Read are co-lead managers.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Dividends: Corresponding dividend	Total for year	Total last year
Barclays	Yr to Dec 31	-	(-)	1,918♠	(1,716♠)	88.4	(74.4)	27.5	Apr 30	23.5	43	37
Black (Peter)	6 mths to Nov 28	107.6	(95.6)	12.7♥	(11.3)	13.68†	(12.8)	1.9	Apr 30	1.75	-	7
Clondalkin €	Yr to Dec 31	513.2	(497.2)	42.1♥	(34.5♥)	75.5	(61.66)	6.4584	Apr 5	-	10.14	9.22
Compel	6 mths to Dec 31	121.5	(96.6)	4.97	(3.67)	11.6†	(9)	2.4	May 4	2.1	-	8.3
Gearhouse	6 mths to Dec 31	37.7	(30.1)	2.13	(1.33)	8.8†	(5.4)	2.8	Apr 23	2.6	-	7.6
Low & Bonar	Yr to Nov 30	403.9	(438.7)	3.44L♠	(30.2♠)	11.84L	(19.79)	11.35	May 4	11.35	15.85	15.6
Micro 4	6 mths to Dec 31	13.2	(12.2)	5.02	(5.25)	16.6	(17.6)	10.2	Apr 28	10.2	-	26.1
Morgan Sindall	Yr to Dec 31	405.2	(328.2)	9.76	(7.26)	22.15	(16.38)	4.45	Apr 14	[illegible]	6.5	5.25
MSW Technology	6 mths to Nov 30	1.36	(1.08)	0.14L	(0.077)	1.82L†	(1.16)	0.75	Apr 8	-	-	-
Paterson Zochonis	6 mths to Nov 30 ★	187.5	(179.3)	11.3	(14.8)	15.58	(21.68)	5.85	Apr 6	5.85	-	18.5
Quarto	Yr to Dec 31	79.2	(81.8)	3.68♠	(2.94♠)	9.8	(7)	2.3	May 5	2.3	4.5	4.5
Range Cooker Φ	6 mths to Oct 31	4.69	(3.76)	1.13	(1.06)	0.53†	(0.89)	0.05	Apr 9	-	-	0.125
St Modwen Props	Yr to Nov 30 ★	64.8	(41.3)	15.6	(13.6)	9.2	(8.2)	2.3	Apr 23	2.1	3.3	3
Sema	Yr to Dec 31	1,250	(1,130)	97.8♥	(84.1)	14.9	(9.8*)	1.46	July 1	1.125*	2.3	1.825*

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Temple Bar	Yr to Dec 31	579.56	(533.82)	11.1	(11.3)	19.24	(19.7)	13.11‡	Mar 31	10.8	19.36	17.6
TR Euro Growth	6 mths to Dec 31	208.58	(170.31)	0.086L	(0.354L)	0.05L†	(0.23L)	-	-	-	-	0.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. €Euros. ★Comparatives restated. ΦAim stock. *Adjusted for scrip issue. ‡Includes foreign income dividend element.

EURO PRICES

EQUITIES

Merger fever turns focus on banks

EUROPEAN OVERVIEW

By Khozem Merchant

Banks were the focus of attention in euro-zone markets, buoyed by merger fever and results. Prices also firmed on the back of a strong opening on Wall Street, which in particular benefited technology and telecommunications stocks, such as Cap Gemini.

Internet stocks have been the rage in the US recently, provoking cautionary comments from both Rupert Murdoch, the media baron, and Alan Greenspan, chairman of the Federal Reserve.

Interest also focused on whether the European Central Bank would cut interest rates. Opinion favoured "no change", especially while the euro remained weak against the dollar.

Merger talk was the motor behind strengthening bank stocks. J. P. Morgan said in a recent report that European merger and acquisition activity in the last quarter of 1998 reached a record $842m, up 58 per cent over the corresponding period in 1997. The UK was the largest target market, but measured as a percentage of the market's total capitalisation, Belgium was the most active.

One factor fuelling this trend is the drive for shareholder value. J. P. Morgan says European firms are buying back shares in record volumes. Last year activity rose 84 per cent to $22.1bn, and it is forecast to rise again because of tax changes. But J. P. Morgan warned that companies might expect too much from share buy-backs, which it said "were only a supplementary tool for creating shareholder value".

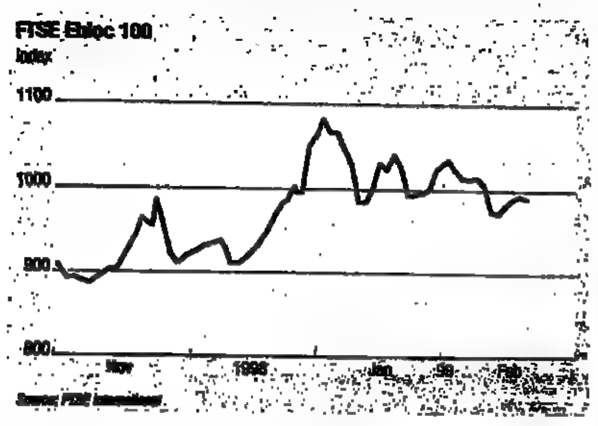
The FTSE Eurotop 300 index of leading European shares ended up 0.70 per cent at 1,209.41, while the FTSE Eurotop 100 index improved 21.13, 0.77 per cent, to 2,775.72.

The FTSE Ebloc 100 index of shares in euro-zone companies ended marginally down 3.52, 0.36 per cent, at 990.02. The most improved sectors were tobacco, up 47.58, 3.36 per cent, and banks, which ended up 16.45, or 1.86 per cent.

UK banks continued their recent good form with Barclays report positively. Its share price improved €1.7 to €24.71. The French bank CCF rose €4 on continuing bid rumors linking it with ING.

Oil stocks were generally firm on better prices. Royal Dutch was the exception, losing €9 to €36.50.

FTSE Ebloc 100



FTSE Actuaries Share Indices — European series

Feb 16

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1209.41	+0.70	+8.37	2.27	0.61	1245.94
FTSE Eurotop 100	2775.72	+0.77	+21.13	2.30	1.97	995.70
FTSE Ebloc 100	990.02	-0.36	[illegible]	2.12	0.39	1005.33
FTSE EuroMid	[illegible]	[illegible]	+5.01	2.82	1.22	1233.20
FTSE EuroMid Ebloc	1196.79	[illegible]	+6.22	2.32	[illegible]	1229.51
FTSE EuroMid Ex UK	1234.36	[illegible]	+0.61	2.19	0.95	1258.19
FTSE Eurotop 300 Regions						
Eurobloc	1241.16	-0.32	-3.95	2.06	[illegible]	1268.42
UK	1167.99	+2.26	+25.86	2.63	0.73	1227.14
Europe Ex-Eurobloc	[illegible]	+1.76	+20.60	2.46	0.52	1230.92
Europe Ex-UK	1233.83	-0.12	-1.42	2.08	0.54	1257.46
FTSE Eurotop Industry Sectors						
RESOURCES	834.37	-1.09	[illegible]	3.49	0.94	874.02
Mining	852.32	-2.47	[illegible]	4.15	0.00	870.32
Oil & Gas	802.71	-1.03	-8.32	3.46	0.94	823.11
BASIC INDUSTRIES	1052.58	[illegible]	[illegible]	2.84	0.86	1075.87
Chemicals	810.52	[illegible]	-3.24	2.79	0.85	825.49
Construction & Bld Matls	950.87	+0.70	[illegible]	2.46	1.15	960.29
Forestry & Paper	889.34	-0.16	-1.45	4.34	[illegible]	930.01
GENERAL INDUSTRIALS	1112.08	+0.59	+6.48	[illegible]	1.04	1136.80
Aerospace & Defence	810.94	-0.38	-3.11	2.04	0.00	822.14
Diversified Industrials	974.89	+0.78	+7.53	2.08	0.00	997.19
Electronic & Elect Equip	1003.19	+0.79	+7.88	[illegible]	1.50	1010.17
Engineering & Machinery	986.20	+0.21	+2.04	3.69	1.65	1001.50
CYCLICAL CONS GOODS	1312.28	-0.09	-1.20	2.51	0.00	1348.34
Automobiles	970.53	[illegible]	-4.05	2.39	0.00	979.53
Household Goods & Txtls	1309.04	+1.68	+21.63	3.16	0.00	1320.21
NON-CYC CONS GOODS	1220.02	+1.37	[illegible]	1.50	0.05	1253.64
Beverages	915.98	+0.70	[illegible]	2.98	0.00	935.74
Food Producers & Processors	910.21	+1.78	+15.71	1.71	0.00	920.91
Health	838.00	[illegible]	+12.37	7.00	0.00	850.53
Packaging	782.80	[illegible]	-4.40	1.15	0.00	[illegible]
Personal Care & Hse Prods	[illegible]	-1.23	[illegible]	0.86	0.00	1104.03
Pharmaceuticals	1119.75	+1.49	+16.45	1.16	0.00	1125.83
Tobacco	1464.22	+3.36	+47.58	2.73	1.42	1493.55
CYCLICAL SERVICES	1287.64	+1.75	+22.20	2.39	[illegible]	1326.39
Distributors	733.70	+1.94	[illegible]	4.02	0.00	741.94
General Retailers	1039.66	+2.45	+24.86	3.06	1.06	1052.21
Leisure Entertmt & Hotels	917.12	+0.48	+4.39	2.24	6.02	936.19
Media & Photography	1188.66	+1.40	+16.45	1.23	0.00	1201.36
Rests, Pubs & Breweries	824.66	+1.62	+13.15	3.42	2.84	851.71
Support Services	1091.47	+2.73	+28.98	1.36	0.00	1103.08
Transport	957.07	+0.52	[illegible]	2.63	1.81	976.55
NON-CYCLICAL SERVS	1342.02	-0.13	-1.80	1.51	0.44	1381.76
Food & Drug Retailers	1016.05	-0.57	-5.84	2.05	0.51	1032.07
Telecommunications Servs	[illegible]	-0.03	[illegible]	1.41	0.39	[illegible]
UTILITIES	1472.92	+0.31	+4.51	3.04	3.71	1568.02
Electricity	1135.50	+0.49	+5.38	3.13	3.42	[illegible]
Gas Distribution	1168.12	-0.79	-9.24	1.64	1.80	1287.19
Water	950.24	+1.46	+13.72	5.27	2.42	1004.01
FINANCIALS	1276.48	+1.16	+14.71	2.65	0.23	1313.82
Banks	[illegible]	+1.86	+16.45	3.29	0.28	913.06
Insurance	966.96	[illegible]	-0.82	1.46	0.00	978.53
Life Assurance	1135.28	+0.82	[illegible]	1.74	0.00	1150.02
Investment Companies	985.42	+0.27	+2.02	1.81	0.00	1009.05
Real Estate	694.32	-0.05	-0.36	3.53	0.00	712.39
Speciality & Other Fin	901.58	+1.24	+11.03	2.51	0.00	916.63
INFORMATION TECH	907.70	+0.80	+7.19	0.69	0.04	909.91
Information Tech Hardware	990.21	+0.61	+5.79	0.75	0.00	982.50
Software & Computer Serv	789.05	+1.36	+10.53	0.49	0.15	790.05

Further information is available on [illegible]. © FTSE International Limited 1999. All rights reserved. [illegible]

THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

[illegible]

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

[illegible]

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

BONDS

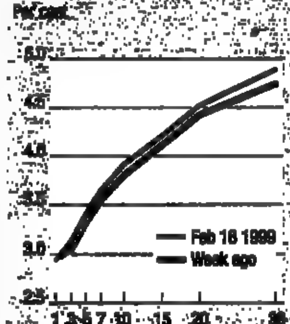
INTEREST RATE SWAPS

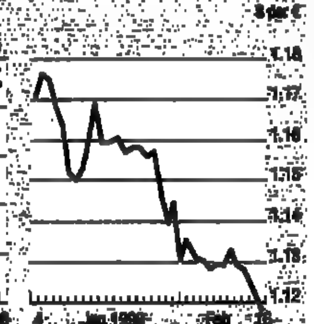
[illegible]

EURO-ZONE BONDS

[illegible]

Standard & Poor's ratings. Source: Interactive Data/FT Information.





NFC considers 'financial services' move

£300m tag

Treasuries rise on news from Japan

BENCHMARK BONDS

By Florian Gimbel in London and John Labate in New York

US Treasuries rallied yesterday with falling Japanese bond yields and a weaker yen allaying fears of a big repatriation of Japanese capital from the US.

The Japanese Ministry of Finance announced it would cut its planned issuance of 10-year Japanese government bonds in March by Y400bn, shifting that amount to easily absorbed two and six-year bonds.

The MoF also said its Trust Fund Bureau would resume buying of JGBs in February and March, reversing an earlier decision to freeze its inventory.

All of this helped push both JGB yields and the yen lower, *triggering a sharp rise in Treasuries*. But US bonds retreated from early highs later in the day, as market sentiment turned from initial euphoria to caution.

"With both the Ministry of Finance announcing its plan to step up JGB purchases and with Mr Sakakibara [Japan's top financial diplomat] talking down the yen, one could see this as a concerted action geared to the upcoming G7 meeting," said Graham McDevitt at Paribas.

Another analyst even referred to today's events as "a blatant piece of market manipulation". He said a weaker yen would help Japanese banks avoid foreign *exchange losses ahead of the* fiscal year-end, with a rate of Y114 to the dollar seen as "the critical level".

US Treasuries started the holiday shortened trading week with mostly higher prices after last week's volatile sessions.

By early afternoon the 30-year bond had climbed ⅔ to 98⅛, sending the yield down to 5.366 per cent.

Internal factors also pushed Treasuries higher. "The market was technically oversold, following Friday's sharp fall in prices. Today, the market looked rife for a rally anyway," said Phillis Reed at Barclays Capital.

The US yield curve flat*tened, as yesterday's events* largely affected the long end. "The short end has not moved a lot. Markets still view a reversal of the latest US interest rate cut as likely," said Ms Reed.

European bonds also took their cues from Japan. They initially moved slightly higher, but ended the day broadly *unchanged*.

Fresh UK economic data failed to move the bond market. "The retail price index figure for January was unchanged [at 2.6 per cent], which slightly disappointed the market. But the PSNCR [public sector net cash requirement] figure was better than expected, which *suggests* lower funding requirements, and thus less supply of gilts. The effects of both sets of data apparently cancelled each other out," said Glenn Davis at Credit Lyonnais.

The 10-year UK gilt contract closed 0.14 higher at 117.12 in London.

The 10-year German bund *also finished* unchanged on the day at 115.19 in Frankfurt, in spite of the positive news from Japan, with the weakness of the euro weighing heavily on the market.

JAPANESE GOVERNMENT BONDS MOF BUREAU TO RESUME BUYING

U-turn by Tokyo puts markets in spin

By Naoko Nakamae in Tokyo and Khozem Merchant in London

The Japanese authorities' turnround yesterday on its bond issuance programme put the markets in a spin.

While they welcomed the decision by the Trust Fund Bureau to resume buying of Japanese government bonds, key questions remained unanswered.

Is the decision by the Ministry of Finance's TFB to buy Y200bn worth of bonds this month and next in the secondary markets a one-off or will it continue into the new fiscal year? Similarly, is an allied announcement by the MoF to reduce issuance of Y1,800bn 10-year JGBs by Y400bn in March also a one-off or will it continue?

Amid intense market speculation, MoF officials said, according to agency reports, that issuance of 10-year paper would be cut by a similar amount in April and *that it was studying the possibility* of the TFB continuing to buy into the new fiscal year.

The government currently plans issuance of Y21,000bn of 10-year paper in fiscal 1999. If issuance is reduced by Y400bn each month, it would amount to a 25 per cent overall cut. "The implications would be profound," says Joanne Collins, bond market analyst at Daiwa in London.

The ministry finally acted yesterday after an alarming rise in yields on 10-year JGB benchmark to 2.44 per cent earlier this month.

The rise in yields, currently 2 per cent on 10-year paper, supports the yen, which is bad for exporters and the recession-hit economy. High yields also damage banks' portfolio holdings of government bonds. Banks increased their JGB holdings last September when yields were at record lows.

In recent months, the short end of the yield curve in Japan has been underpinned by lower and falling rates. At the same time, long-term yields have soared, compounded by a *heavy issuance of long-term* paper to finance fiscal stimulus programmes.

Jeffrey Young, analyst at Salomon Smith Barney in Tokyo, said policymakers had now accepted the need "to damp yield increases at the long end of the curve. But this decision is short and temporary in nature – which means the effects will probably be short and temporary as well."

Amid the desperate attempts by MoF officials to explain the U-turn, one intriguing detail stood out. While issuance of 10-year bonds is set to reduce, there will be a corresponding rise in issuance of short-dated paper.

The MoF yesterday confirmed that it would issue Y300bn extra in two-year bonds, and Y100bn more in six-year bonds.

Yesterday's developments follow comments by the MoF last week that it was worried about the high yields. It said it would alter its original plans for heavy issuance into the 10-year zone to address the problem.

If yesterday's moves do not force JGB yields down, the Bank of Japan may not be able to resist pressure, including from the US, to intervene and support the bond markets.

Whether this latest move will calm long-term rates remains to be seen but it at least reflects a bigger policy shift in Japan, which has been unusual among Group of Seven countries in its heavy reliance on 10-year bonds.

The government is now scrambling to change this by issuing shorter maturity JGBs, but will institutional investors move into short-dated paper?

Life assurers, which invest some Y26,000bn in the JGB market, are unlikely to make a big shift away from longer-dated bonds, as most of their liabilities are fixed at levels above 2.75 per cent.

"Life assurers have fixed liabilities, therefore, at current yield levels [even with increased issuance], I doubt there'll be a rush towards medium-term bonds," said Naoki Matsuyama, fixed-income manager at Meiji Life.

Big city banks were slightly more enthusiastic. Although their JGB investments are half that of the life assurers, they have shorter-dated liabilities, and are generally considered a better source of demand for shorter-term instruments.

JFM makes its debut in euros

NEW ISSUES

By Arkady Ostrovsky

Japan Finance Corporation for Municipal Enterprises – the main financier for Japanese local government – returned to the markets for the first time since the Russian financial crisis with €500m fixed-rate deal.

The issue, a debut in euros for JFM, re-opens the fixed-rate market for Japanese government-backed borrowers and sets a benchmark for other Japanese issuers in the single currency, said an official at lead manager Paribas.

European investors, who so far have little exposure to Japanese assets, absorbed about 80 per cent of the five-year issue, which was priced at 33 basis points over the five-year French OAT.

The deal follows last week's successful launch of a $1bn five-year floating rate note by the Export-Import Bank of Japan, the first government guaranteed issuance in seven months.

Paribas said the new currency gives Japanese borrowers access to a wider investor base, making their issues more liquid and transparent. "The euro is where the action is at the moment, and it gives JFM access to an investor base that was hard to gain for non-European issuers," said Sean Park, European head of syndicate at Paribas.

Tomoaki Abe, senior funding manager for JFM, said: "We had to establish our benchmark in euros, which is one of the most important markets for borrowers."

JFM last tapped the capital markets in June 1998, with a DM500m issue, but Mr Park said bonds issued in European currencies quickly became illiquid and irrelevant for other borrowers.

"In the past you had to do smaller issues in local currencies, which made it difficult for borrowers to tap the market in a sensible way," he said.

Casino, a leading French retailer, issued a €350m FRN, also its debut in euros. The bond was priced at 33 basis points over Eonia, the overnight borrowing rate.

Pierre Fourrier, at Banque Nationale de Paris, said pricing over Eonia rather than Euribor, made the deal more liquid. "It's a new type of a floating-rate note and could challenge Euribor," he said.

The National Rural Utilities Co-operative Finance Corporation, which provides finance for local utilities in the US, launched a seven-year €350m Eurobond aimed at European investors.

The deal was priced at 46 basis points over German seven-year bunds and traded at that price after the launch.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Deutsche Bank Finance†	500	(a)	99.756R	Mar 2006	0.200R	-	Deutsche Bank
SGZ Bank†	500	(b)	99.845R	Feb 2004	0.175R	-	Deutsche Bk/Lehman
State Bank of NSW†	400	(c)	99.770R	Mar 2001	0.125R	-	Deutsche Bank
Nomura Global Funding	300	5.40(q)	99.930	Feb 2002	1.10	-	Nomura Securities
SunAmerica Inst Funding(n)	150	5.75	99.1789R	Feb 2009	0.325R	+87(4¾Nov08)	Merrill Lynch
DSL Bank	150	5.75	100.816R	Feb 2005	1.30R	+54(4¾Feb04)	CSFB
EUROS(e)							
JFM(f)	500	3.625	99.587R	Mar 2004	0.25R	+33(5½Apr04)	Paribas
Casino	350	(d)	99.942R	Mar 2001	0.11R	-	BNP
NRUCFC	350	4.125	99.607R	Feb 2006	0.175R	+46(6¾Jan06)	JP Morgan/Lehman Bros
IFC	60	(g)	99.750R	Mar 2019	0.50R	-	Lehman Bros
STERLING							
EIB	175(h)	zero	24.905	Dec 2028	0.100	-	Barclays
RMS Class A†‡	*150*	*(l)‡*	*99.91R*	*Jun 2037*	*0.255R*	-	*MSDW*
SWISS FRANCS							
Abbey National Treasury	200(k)	2.00	100.55	Jan 2004	2.00	-	CSFB
Migros Bank	100	3.125	101.50	Feb 2007	2.00	-	CSFB
NEW ZEALAND DOLLARS							
National Australia Bank	100	8.00	100.57	Mar 2004	2.00	+50(i)	RBC DS
SWEDISH KRONOR							
Helaba Finance	400	3.875	101.64085	Mar 2004	1.875	-	Deutsche Bank

Final terms, non-callable unless stated. Yield spread (over rlvt govt bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor plus 10bp. b) 3-mth Libor plus 12½bp. c) 3-mth Libor plus 25bp. d) Eonia plus 30bp. e) Spread relates to German govt bonds unless stated. f) Spread relates to French govt bonds. g) 13% in yr 1, 6% in yr 2, 5% in yr 3, 4% in yrs 4-7, 8% minus 12-month Euribor thereafter. h) £325m bond launched 11/2/99 increased to £500m. i) Over interpolated yield. ‡) Also available: Class B, private placement. Class M, £12m. *l) 3-mth Libor plus 29bp. 3-mth Libor plus 70bp from June 2004 unless called. Callable from June 2004.* k) Fungible with SFr200m. Plus 69 days accrued interest. m) Fungible with SFr150m. Plus 45 days accrued interest. n) $850m bond launched 2/2/99 increased to $1bn. p) Fungible with $1.15bn. Plus 19 days accrued interest. q) Quarterly. ‡) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 16	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.9285	4.87	-0.05	+0.06	+0.12	-0.23
	05/09	8.750	125.1273	5.34	-0.08	+0.11	+0.23	-0.46
Austria	07/00	5.675	103.7800	3.06	-0.05	+0.04	+0.02	-1.92
	01/08	5.000	108.9200	4.06	-	+0.12	+0.18	-1.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]	[illegible]	[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]	[illegible]	[illegible]	[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.02	111.06	+0.04	111.38	111.01	22,363	89,894

Germany

Italy

Spain

UK

US

Japan

Euro

[illegible]	[illegible]	[illegible]	[illegible]

US CORPORATE BONDS

Feb 16	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
Pac Bell	07/02	7.25	AA-	105.2985	5.60	+0.09	+0.21	+0.80
NY Tel	06/25	7.00	A+	99.4017	7.05	+0.10	+0.33	+1.55
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US INTEREST RATES

[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL BONDS

Feb 16	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	04/07	7.250	AAA	109.9602	5.69	-0.02	+0.33	+0.69
ABN Amro	06/07	7.125	AA-	[illegible]	6.31	-0.02	+0.01	+1.31
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]	[illegible]	[illegible]	[illegible]

FT Fixed Interest Indices

[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

Yen drops as official unease recedes

MARKETS REPORT

By Melanie Carroll and Alan Beattie

The yen continued to sink yesterday under the tolerant eye of Eisuke Sakakibara, the influential Japanese vice-finance minister, after beginning to slide on Monday.

Some analysts predict the yen could reach as low as Y125 by the end of the month, but the Ministry of Finance has not publicly set a floor for the yen.

Mr Sakakibara, commonly called "Mr Yen" for his influence over the currency markets, said yesterday the yen's weakening was a consequence of Friday's interest rate cuts, and the government did not want to intervene unless panic set in.

Key Japanese officials such as Mr Sakakibara seem to have accepted a falling yen as the consequence of loosening monetary policy. The fall was instigated by the BoJ's interest rate cut on Friday, which was aimed at stimulating the economy.

The yen reached Y118.2 by the close of trade in London yesterday. Analysts consider sustained falls below Y118 as a significant breach of a psychological level, close to the bottom of the Bank of Japan's apparent Y110-Y120 comfort zone. Larry Hatheway, global head of strategy at Warburg Dillon Read, said he was cautious about the current pattern. But he expected investors to test the Y120 mark over the next few days, and perhaps push it down to Y125, he said.

"It's important to remain cautious, but what seems equally important is the statement from Mr Sakakibara expressing tolerance, although not acceptance, of the yen's fall," said Mr Hatheway.

■ Sterling leapt yesterday as interest rate expectations rose on the back of some rather tame inflation data.

The headline rate of inflation, RPIX, rose by 2.6 per cent in the twelve months to January. That was about a tenth of a percentage point higher than the market's expectation.

But despite the small margin of error and the limited role for backward-looking inflation rates in the formation of monetary policy, sterling took off as soon as the data were released early in London trading.

The pound rose by a cent against the dollar and half a cent against the euro. By the end of trading hours in London yesterday it had reached $1.634 against the dollar, up from $1.629 on Monday. Against the euro it closed up at £0.685, a record high closing value against the new currency.

Analysts said the rise in sterling looked a little excessive, but that it was recovering from a low base.

"The currency was clearly reacting to falls in short sterling prices," said Cameron Crise, currency analyst at Warburg Dillon Read in London. "Having reached their nadir in recent days, expectations of interest rates in the UK have risen." Short sterling contracts expiring in June 1999 settled 6 basis points down yesterday.

Mr Crise said the rise in sterling may have been exacerbated by UK companies taking the opportunity to hedge while it was relatively cheap.

"UK corporates have been over a barrel in the past few months with the forward rates at a premium to the spot," he said. "With the pound down towards the bottom of the $1.60-1.70 range, some of those companies may have thought it was a good time to hedge," he said.

■ With sterling and the dollar both rising, the euro took a further lurch downwards yesterday, crashing through the $1.12 level to a record low against the dollar.

At the end of the London session it had set another new low against the dollar, closing at $1.118.

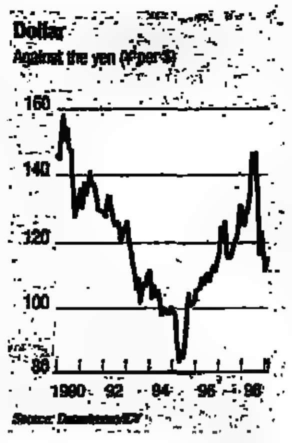
But analysts said the euro's weakness mainly reflected strength in other currencies. The market did not appear to shift its view on the likely outcome of the European Central Bank's council meeting tomorrow, taking place under the dovish gaze of Oskar Lafontaine.

"If anything the pressure from Lafontaine and company has led people to think that the ECB will resist the temptation to cut rates," said Adrian Schmidt, senior economist at Chase Manhattan in London.

But there has been a modest downgrading of eurozone growth expectations recently, he said.

Dollar

Against the yen (Y per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Feb 16	—Latest—	— Prev. close —
£ spot	1.6335	1.6325
1 mth	1.6327	1.6317
3 mth	1.6320	1.6311
1 yr	1.6341	1.6316

■ OTHER CURRENCIES

Feb 16	£	$
Czech Rp	55.5347 - 55.7207	34.0550 - 34.1050
Hungary	364.357 - 364.907	223.050 - 223.260
Iran	4899.40 - 4904.30	3000.00 - 3000.00
Kuwait	0.4985 - 0.4997	0.3035 - 0.3056
Peru	5.3798 - 5.3276	3.3800 - 3.3900
Poland	6.2546 - 6.2580	3.8180 - 3.8280
Russia	37.7929 - 37.9309	23.1450 - 23.1950
U.A.E.	6.0077 - 6.0016	3.6725 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.1051	+0.1630	993 - 148	20.1303	19.9212	20.0671	2.3	19.9941	2.2	19.6678	2.1	102.8
Belgium*	(BFr)	58.9403	+0.4777	117 - 689	58.9840	58.4010	58.8291	2.3	58.6151	2.2	57.717	2.1	102.6
Denmark	(DKr)	10.8659	+0.0854	609 - 709	10.8790	10.7834	10.8495	1.8	10.8186	1.7	10.6945	1.6	105.8
Finland*	(FM)	8.6873	+0.0704	830 - 915	8.6940	8.6088	8.671	2.3	8.6394	2.2	8.5071	2.1	81.3
France*	(FFr)	9.5842	+0.0777	795 - 888	9.5914	9.4985	9.565	2.3	9.5312	2.2	9.3852	2.1	106.0
Germany*	(DM)	2.8577	+0.0232	563 - 590	2.8606	2.8309	2.8523	2.3	2.8419	2.2	2.7984	2.1	103.8
Greece	(Dr)	470.440	+3.9950	190 - 690	471.357	466.111	471.923	-3.8	475.157	-4.0	487.794	-3.7	62.8
Ireland*	(I£)	1.1507	+0.0093	501 - 513	1.1516	1.1402	1.1485	2.3	1.1443	2.2	1.1268	2.1	93.6
Italy*	(L)	2829.07	+23.0300	770 - 044	2831.20	2803.20	2823.73	2.3	2813.46	2.2	2770.28	2.1	75.8
Luxembourg*	(LFr)	58.9403	+0.4777	117 - 689	58.9840	58.4010	58.8291	2.3	58.6151	2.2	57.717	2.1	102.6
Netherlands*	(Fl)	3.2199	+0.0262	183 - 214	3.2222	3.1904	3.2138	2.3	3.202	2.2	3.153	2.1	109.0
Norway	(NKr)	12.6127	+0.1538	019 - 235	12.6453	12.4473	12.632	-1.8	12.683	-1.7	12.6973	-0.7	92.0
Portugal*	(Es)	292.923	+2.3740	701 - 085	293.140	290.249	292.37	2.3	291.307	2.2	286.844	2.1	93.0
Spain*	(Pta)	243.105	+1.9700	987 - 223	243.230	240.880	242.646	2.3	241.784	2.2	238.059	2.1	78.8
Sweden	(SKr)	12.9626	+0.0940	499 - 741	12.9799	12.8389	12.9585	2.1	12.8957	2.0	12.7238	1.9	83.1
Switzerland	(SFr)	2.3361	+0.0206	347 - 374	2.3389	2.3121	2.3282	4.1	2.3127	4.0	2.2525	3.8	107.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.4
Euro	(€)	1.4611	+0.0118	594 - 616	1.4622	1.4478	1.4594	2.3	1.4561	2.2	1.4307	2.1	-
SDR†	-	1.186100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6335	+0.0051	326 - 338	1.6347	1.6238	-	-	-	-	-	-	-
Brazil	(R$)	3.1037	+0.0095	864 - 209	3.1300	3.0655	-	-	-	-	-	-	-
Canada	(C$)	2.4486	+0.0173	472 - 500	2.4610	2.4259	2.4478	0.5	2.447	0.3	2.4479	0.0	78.2
Mexico	(New Peso)	16.2166	+0.0379	073 - 258	16.2316	16.1025	16.5166	-22.3	17.1606	-23.3	19.7039	-21.5	-
USA	($)	1.6335	+0.0050	330 - 340	1.6349	1.6238	1.6326	0.6	1.6321	0.4	1.6341	0.0	108.5
Pacific/Middle East/Africa													
Australia	(A$)	2.5616	+0.0408	596 - 636	2.5660	2.5182	2.5599	0.8	2.5577	0.6	2.5553	0.2	81.0
Hong Kong	(HK$)	12.6572	+0.0383	525 - 619	12.6679	12.5827	12.6696	-1.2	12.7013	-1.4	13.0054	-2.8	-
India	(Rs)	69.4197	+0.2899	933 - 461	69.4510	68.9790	69.7273	-5.3	70.4914	-6.2	74.8521	-7.8	-
Indonesia	(Rupiah)	14252.33	+247.64	545 - 920	14417.50	13783.80	14579.79	-27.5	15463.63	-34.0	18696.57	-30.4	-
Israel	(Shk)	6.6142	+0.0075	042 - 241	6.6328	6.6185	-	-	-	-	-	-	-
Japan	(Y)	193.039	+4.9120	938 - 139	193.250	186.010	192.239	5.0	190.619	5.0	183.614	4.8	130.3
Malaysia‡	(M$)	6.1881	-	572 - 795	6.1909	6.1704	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.0346	+0.0658	305 - 380	3.0382	2.9602	3.0308	1.5	3.0263	1.1	3.0245	0.3	92.3
Philippines	(Peso)	62.8698	-0.0498	258 - 541	63.2599	62.5184	63.2281	-8.4	64.0018	-7.1	67.843	-7.9	-
Saudi Arabia	(SR)	6.1264	+0.0189	242 - 286	6.1312	6.0902	6.1306	-0.8	6.1478	-1.4	6.2433	-1.9	-
Singapore	(S$)	2.7729	+0.0184	712 - 745	2.7792	2.7544	2.7686	2.7	2.7525	2.8	2.7161	2.1	-
South Africa	(R)	10.0383	+0.0539	274 - 491	10.0579	9.9396	10.1181	-9.5	10.2789	-9.5	10.9309	-8.9	-
South Korea	(Won)	1919.36	+5.0460	714 - 158	1922.37	1890.58	-	-	-	-	-	-	-
Taiwan	(T$)	52.7621	+0.1631	645 - 589	52.8713	52.4244	53.0136	-5.7	53.196	-3.3	53.978	-2.3	-
Thailand	(Bt)	60.3089	+0.4002	057 - 098	60.4680	59.7380	60.4006	-1.8	60.6218	-2.1	62.1309	-3.0	-

† Rates for Feb 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria*	(Sch)	12.3080	+0.0679	030 - 109	12.3297	12.2477	12.291	1.7	12.2511	1.8	12.0477	2.1	102.8
Belgium*	(BFr)	36.0822	+0.1814	757 - 887	36.1370	35.9050	36.0324	1.7	35.9154	1.8	35.3190	2.1	102.7
Denmark	(DKr)	6.6519	+0.0316	509 - 529	6.6598	6.6203	6.6453	1.2	6.6289	1.4	6.5444	1.6	105.1
Finland*	(FM)	5.3182	+0.0267	172 - 191	5.3263	5.2921	5.3109	1.6	5.2937	1.8	5.2058	2.1	80.7
France*	(FFr)	5.8673	+0.0296	637 - 708	5.8762	5.8385	5.8592	1.7	5.8402	1.8	5.7432	2.1	105.5
Germany*	(DM)	1.7494	+0.0088	481 - 497	1.7521	1.7408	1.747	1.7	1.7414	1.8	1.7124	2.1	103.4
Greece	(Dr)	287.995	+1.5800	800 - 050	288.790	286.520	289.05	-4.4	291.145	-4.4	298.445	-3.6	62.5
Ireland*	(I£)	1.4196	-0.0073	186 - 196	1.4265	1.4174	1.4218	-1.7	1.4262	-1.8	1.4530	-2.2	-
Italy*	(L)	1731.91	+8.7100	160 - 222	1734.64	1723.43	1729.52	1.7	1723.91	1.8	1695.29	2.1	75.3
Luxembourg*	(LFr)	36.0822	+0.1814	757 - 887	36.1370	35.9050	36.0324	1.7	35.9154	1.8	35.3190	2.1	102.7
Netherlands*	(Fl)	1.9712	+0.0100	700 - 718	1.9741	1.9615	1.9685	1.7	1.9621	1.9	1.9295	2.1	102.0
Norway	(NKr)	7.7213	+0.0705	170 - 255	7.7360	7.6532	7.737	-2.4	7.7603	-2.0	7.7770	-0.8	91.8
Portugal*	(Es)	179.322	+0.9020	258 - 384	179.600	178.440	179.075	1.7	178.493	1.8	175.53	2.1	92.5
Spain*	(Pta)	148.825	+0.7480	766 - 883	149.050	148.100	148.62	1.7	148.137	1.8	145.676	2.1	78.5
Sweden	(SKr)	7.9351	+0.0331	301 - 401	7.9477	7.8946	7.9253	1.5	7.9017	1.7	7.7881	1.9	82.7
Switzerland	(SFr)	1.4301	+0.0062	297 - 305	1.4328	1.4225	1.4258	3.6	1.4171	3.6	1.3783	3.6	107.4
UK	(£)	1.6335	+0.0050	330 - 340	1.6349	1.6238	1.6326	0.6	1.6321	0.4	1.6341	0.0	99.9
Euro	(€)	1.1180	-0.0087	178 - 182	1.1236	1.1101	1.1198	-1.7	1.1232	-1.9	1.1421	-2.2	-
SDR†	-	0.72810	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	1.9000	-	900 - 100	1.9200	1.8800	-	-	-	-	-	-	-
Canada	(C$)	1.4991	+0.0080	985 - 996	1.5060	1.4926	1.4993	-0.1	1.4994	-0.1	1.498	0.1	78.0
Mexico	(New Peso)	9.9275	-0.0075	200 - 350	9.9950	9.9250	10.1175	-23.0	10.615	-22.7	12.0675	-21.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.2
Pacific/Middle East/Africa													
Australia	(A$)	1.5681	+0.0201	674 - 688	1.5706	1.5477	1.5677	0.3	1.5673	0.2	1.5666	0.1	81.3
Hong Kong	(HK$)	7.7485	-0.0005	480 - 490	7.7495	7.7475	7.76	-1.8	7.7825	-1.8	7.9595	-2.7	-
India	(Rs)	42.4975	+0.0462	925 - 025	42.5250	42.4500	42.7075	-5.9	43.1925	-6.5	45.6525	-7.5	-
Indonesia	(Rupiah)	8725.00	-125.00	500 - 000	8825.00	8475.00	8930	-28.2	9475	-34.4	11375	-30.4	-
Israel	(Shk)	4.0491	-0.0080	442 - 539	4.0610	4.0431	-	-	-	-	-	-	-
Japan	(Y)	118.175	+2.6800	150 - 200	118.310	115.640	117.745	4.4	116.8	4.7	112.485	4.8	135.5
Malaysia‡	(M$)	3.8000	-	000 - 000	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8577	+0.0284	550 - 604	1.8597	1.8322	1.8550	1.2	1.8541	0.8	1.8548	0.2	-
Philippines	(Peso)	38.5000	-0.1600	000 - 500	38.6700	38.3400	38.7250	-7.0	39.216	-7.4	41.5155	-7.8	-
Saudi Arabia	(SR)	3.7505	-	503 - 508	3.7508	3.7502	3.755	-1.4	3.767	-1.8	3.8205	-1.9	-
Singapore	(S$)	1.6975	+0.0060	970 - 980	1.6985	1.6950	1.6945	2.1	1.6905	2.6	1.6621	2.1	-
South Africa	(R)	6.1425	+0.0153	425 - 500	6.1700	6.1350	6.1973	-10.2	6.297	-9.9	6.666	-8.8	-
South Korea	(Won)	1175.00	-0.6500	400 - 600	1176.50	1173.50	-	-	-	-	-	-	-
Taiwan	(T$)	32.3000	-	500 - 500	32.5500	32.1500	32.47	-6.3	32.595	-3.7	33.03	-2.3	-
Thailand	(Bt)	36.9200	+0.1350	700 - 700	36.9800	36.7500	36.995	-2.4	37.145	-2.4	38.02	-3.0	-

† SDR rate per $ for Feb 11. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 3.80 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Feb 11. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Feb 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3⅛	3⅛	3⅛	3	3	–	3.00	3.00
Switzerland	1⅛	1⅛	1⅛	1⅛	1⅜	–	1.00	–
US	4¾	4¾	4⅞	5	5⅛	–	4.50	–
Japan	⅛	⅛	⅛	⅛	¼	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	4⅞	5	5⅛	5¼	–	–	–
US Dollar CDs	–	4.75	4.79	4.81	4.90	–	–	–
Euro Linked Ds	–	3⅛	3⅛	3⅛	3⅛	–	–	–
SDR Linked Ds	–	3⅜	3¼	3⅜	3⅜	–	–	–
BBA Euro Libor	–	3⅛	3⅛	3⅛	3⅛	–	–	–
Euro Euribor	–	3.113	3.092	3.044	3.038	–	–	–
EONIA	3.04	–	–	–	–	–	–	–
EURONIA	3.0337	–	–	–	–	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds)

INTERNATIONAL CURRENCY RATES

Feb 16	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 2⅞	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3	3⅛ - 2⅞	3⅛ - 3
Danish Krone	3¾ - 3⅝	3⅝ - 3½	3⅝ - 3½	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3½
Sterling	5⅝ - 5⅜	5¾ - 5⅝	5⅝ - 5½	5⅝ - 5⅜	5⅜ - 5⅜	5¼ - 5⅛
Swiss Franc	1⅝ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅜ - 1⅛	1⅝ - 1⅜
Canadian Dollar	5 - 4¾	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅜ - 5⅛
US Dollar	4⅞ - 4¾	4⅞ - 4¾	4⅞ - 4¾	5 - 4⅞	5⅛ - 4⅞	5⅛ - 5⅛
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	¼ - ⅛
Asian $Sing	⅝ - ⅛	5 - 4	2⅝ - 2⅛	2⅝ - 2⅛	2⅝ - 1⅞	3⅛ - 2⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.955	96.965	+0.065	96.970	96.950	4,252	36,128
Jun	97.050	97.060	+0.015	97.075	97.050	4,367	34,109

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.955	96.970	+0.020	96.970	96.950	[illegible]770	146257
Jun	97.050	97.065	+0.020	97.075	97.050	22285	118361
Sep	97.100	97.100	+0.020	97.110	97.065	23626	70494
Dec	96.820	96.835	+0.010	96.855	96.820	6288	74250

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.955	96.970	+0.020	96.970	96.955	1518	162095
Jun	97.050	97.065	+0.020	97.070	97.050	517	125872
Sep	97.095	97.100	+0.020	97.110	97.095	699	122269
Dec	96.850	96.835	+0.010	96.850	96.845	15	99266

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
96875	0.105				0.010			
97000	0.045	0.140	0.205	0.145	0.075	0.075	0.105	0.310
97125	0.015				0.170			
97250	0.005	0.050	0.100	0.080	0.285	0.235	0.260	0.495

Est. vol. total, Calls 23673 Puts 8812. Previous day's open int., Calls 91004 Puts 49542

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
96875								
97000	0.105	0.205	0.145	0.230	0.040	0.105	0.310	0.225
97125								
97250	0.030	0.100	0.080	0.130	0.215	0.250	0.485	0.375

Est. vol. total, Calls 2795 Puts 300. Previous day's open int., Calls 342016 Puts 170762

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.680	98.690	+0.030	98.690	98.680	5967	84655
Jun	98.590	98.600	+0.010	98.610	98.590	5296	68130
Sep	98.440	98.480	+0.020	98.480	98.440	1951	34335
Dec	98.150	98.180	+0.030	98.180	98.150	1186	15949

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		99.59	+0.10			0	0
Jun		99.68	+0.06			0	0
Sep		99.69	+0.10			0	0

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
98750	0.060	0.110	0.130	0.120	0.260	0.400
98875	0.020			0.205		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3880 Puts 2112

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.44	16.26	4.848	1.952	4800	5.463	21.40	497.0	412.5	21.99	3.964	1.697	4.155	2.771	327.5	2.479
Denmark	(DKr)	54.24	10	8.820	2.630	1.059	2604	2.963	11.61	269.6	223.7	11.93	2.150	0.920	2.254	1.503	177.7	1.345
France*	(FFr)	61.50	11.34	10	2.982	1.201	2952	3.360	13.16	305.6	253.7	13.52	2.438	1.044	2.555	1.704	201.4	1.525
Germany*	(DM)	20.63	3.802	3.354	1	0.403	990.0	1.127	4.414	102.5	85.07	4.536	0.818	0.350	0.857	0.572	67.55	0.511
Ireland*	(I£)	51.22	9.443	8.329	2.483	1	2459	2.798	10.96	254.6	211.3	11.26	2.030	0.869	2.128	1.420	167.8	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.446	10.35	8.593	0.458	0.083	0.035	0.087	0.058	6.823	0.052
Netherlands*	(Fl)	18.31	3.375	2.977	0.888	0.357	878.6	1	3.917	90.97	75.50	4.026	0.726	0.311	0.761	0.507	59.95	0.454
Norway	(NKr)	46.73	8.615	7.599	2.266	0.912	2243	2.553	10	232.2	192.7	10.28	1.853	0.793	1.942	1.295	153.1	1.158
Portugal*	(Es)	20.12	3.710	3.272	0.976	0.393	965.8	1.099	4.306	100	82.99	4.425	0.798	0.341	0.836	0.558	65.90	0.499
Spain*	(Pta)	24.24	4.470	3.942	1.175	0.473	1164	1.324	5.188	120.5	100	5.332	0.961	0.411	1.007	0.672	79.41	0.601
Sweden	(SKr)	45.47	8.383	7.394	2.205	0.888	2183	2.484	9.731	226.0	187.6	10	1.802	0.771	1.889	1.260	148.9	1.127
Switzerland	(SFr)	25.23	4.651	4.103	1.223	0.493	1211	1.378	5.399	125.4	104.1	5.549	1	0.428	1.048	0.699	82.63	0.625
UK	(£)	58.93	10.87	9.583	2.857	1.151	2829	3.219	12.61	292.9	243.1	12.96	2.336	1	2.449	1.634	193.0	1.461
Canada	(C$)	24.07	4.437	3.914	1.167	0.470	1155	1.315	5.151	119.6	99.28	5.293	0.954	0.408	1	0.667	78.83	0.597
USA	($)	36.08	6.652	5.867	1.749	0.704	1732	1.971	7.721	179.3	148.8	7.935	1.430	0.612	1.499	1	118.2	0.894
Japan	(Y)	30.53	5.629	4.965	1.480	0.596	1466	1.668	6.534	151.7	125.9	6.715	1.210	0.518	1.269	0.846	100	0.757
Euro	(€)	40.34	7.437	6.560	1.956	0.788	1936	2.204	8.632	200.5	166.4	8.872	1.599	0.685	1.676	1.118	132.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5783	0.5718	-0.0058	0.5787	0.5713	7,482	58,049
Jun	0.5750	0.5760	-0.0054	0.5780	0.5748	75	1,649
Sep	-	0.5834	-	-	-	1	167

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7089	0.7005	-0.0076	0.7109	0.6998	11,482	56,959
Jun	0.7100	0.7065	-0.0084	0.7100	0.7062	115	511
Sep	-	0.7135	-0.0076	-	0.7135	5	285

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8603	0.8487	-0.0280	0.8624	0.8481	14,842	72,633
Jun	0.8730	0.8660	-0.0270	0.8730	0.8580	84	5,146
Sep	0.8710	0.8710	-0.0267	0.8710	0.8709	1	1,498

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6314	1.6304	-	1.6342	1.6230	5,274	54,124
Jun	1.6290	1.6294	-0.0008	1.6300	1.6250	42	1,845
Sep	-	1.6290	-0.0012	-	1.6290	280	230

UK INTEREST RATES

LONDON MONEY RATES

Feb 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅝ - 2	5⅝ - 5¼	5⅝ - 5⅝	5⅝ - 5⅝	5⅜ - 5⅜	5⅜ - 5⅜
Sterling CDs	-	-	5¼ - 5	5⅝ - 5⅛	5⅝ - 5⅜	5⅜ - 5⅜
Treasury Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅜	-	-
Bank Bills	-	-	5⅝ - 5⅝	5¾ - 5⅝	-	-
Local authority deps.	5¼ - 5⅛	5⅛ - 5⅛	5⅝ - 5⅝	5⅝ - 5⅛	5⅜ - 5⅛	5⅛ - 5⅛
Discount Market deps	6 - 5¼	5⅝ - 5¼	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	5.5	5.5	5.25	5.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Feb 12 5.0807pc. ECGD fixed rate Stlg. Export Finance. Make up day Jan 29, 1999. Agreed rate for period Feb 24, 1999 to Mar 23, 1999, Scheme III 7.19pc. Reference rate for period Jan 1, 1999 to Jan 29, 1999, Schemes IV & V 5.926pc. Finance House Base Rate 6.5pc for Feb 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.700	94.680	-0.030	94.710	94.650	21621	188730
Jun	95.000	94.930	-0.080	95.020	94.920	39809	195454
Sep	95.110	95.040	-0.055	95.120	95.030	28590	182736
Dec	94.890	94.840	-0.040	94.910	94.830	6627	143399
Mar	95.050	95.020	-0.020	95.090	95.010	8945	130695

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
94500	0.175	0.460	0.600	0.015	0.030	0.060
94625	0.065			0.030		
94750	0.040	0.265	0.410	0.130	0.065	0.120
94875	0.015			0.230		
95000	0.005	0.125	0.255	0.345	0.195	0.215
95125	0			0.465		

Est. vol. total, Calls 19867 Puts 12164. Previous day's open int., Calls 344818 Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Feb 16	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	353.40	+0.5	-8.70	8.15	58
Denmark	7.46038	7.4347	-0.0001	-0.34	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.6854	-0.0041	4.86	-4.96	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
1.620	1.11	1.94	2.54	-	0.86	1.51
1.630	0.26	1.36	2.04	0.09	1.22	1.96
1.640	0.02	0.85	1.63	0.75	1.73	2.45

Previous day's vol., Calls 50 Puts 116. Prev. day's open int., Calls 563 Puts 1,914

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
0.575	0.14	0.65	0.98	-	0.40	0.62
0.580	0.06	0.41	0.72	0.30	0.61	0.86
0.585	0.03	0.26	0.52	0.79	0.97	1.16

Previous day's vol., Calls - Puts 44. Prev. day's open int., Calls 308 Puts 3,265

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.97	94.98	+0.01	94.98	94.95	51,418	441,594
Jun	94.90	94.93	+0.03	94.94	94.88	87,161	452,103
Sep	94.82	94.87	+0.03	94.88	94.85	165,671	431,145

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.68	95.65	+0.03	95.68	95.65	48	2,419
Jun	95.64	95.65	+0.01	95.65	95.64	5	705

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	6.00	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

IRON ORE HEFTY REDUCTIONS OF 11% ACCEPTED BUT VOLUMES TO BE MAINTAINED

Australian exporters agree price cuts with Japan

By Stephen Wyatt in Sydney

Australia's iron ore exporters have agreed to take price cuts of around 11 per cent for iron ore shipments to Japanese steel mills.

The deal, for the year beginning on April 1, ends three months of negotiations and is the first price cut after four years of increases.

Australia is the largest iron ore exporter in the world and iron ore is its third most important commodity export earner after coal and gold.

The price cut follows an 18 per cent reduction in contract coking coal prices agreed late last year between Australian coal exporters and Japanese steel mills.

Hamersley Iron, a subsidiary of Rio Tinto, agreed to a price cut of 11 per cent for its iron ore to 26.63 US cents per long ton iron unit and to a 10.2 per cent cut to 34.83 US cents per long ton iron unit for its lump iron ore.

Despite falling Japanese steel production, Hamersley managed to maintain contracted export tonnages. Shipments of iron ore fines are expected to be 15.1m tonnes in 1999 compared with 15.7m tonnes this year.

Mr Ian Bauer, Hamersley director of sales and marketing, said price cuts were inevitable given that Japanese steel production is at 27-year lows.

North Limited's Robe River accepted a 13.42 per cent cut to 21.23 US cents per long ton iron unit for its lower quality sinter fines and obtained guaranteed shipments over 1999 of 12.5m tonnes. However, it expects to ship closer to 15m tonnes.

Broken Hill Proprietary also agreed to a price cut of 11 per cent for its Newman product and 10.2 per cent for lump with Nippon Steel. BHP is still negotiating prices with other steel mills.

The price cuts are larger than most analysts expected. Sydney based metals and minerals consultancy group AME Mineral Economics felt that Australian exporters might have achieved a cut of between 4 and 6 per cent while most other analysts had expected cuts in the 7 to 10 per cent range.

Trading in water licences attracts big money

Exchanges that facilitate buying and selling rights to irrigate are springing up throughout the country, writes **Stephen Wyatt**

Australia's most scarce natural resource, water, is becoming "commoditised". Once regarded as a free gift from God, water is now being traded and is attracting big money in a big dry continent.

Prices could go still higher, depending upon the state of commodity markets and seasonal conditions. That is one reason why a lot of smart money is already in the water game – the trading of water licences that bestow the right to irrigate.

John Elliot of Elders and Fosters, the brewing group, has acquired licences for irrigated rice farming. Argentine based John Dieter Kahlbetzer owns 14 Australian rural properties with a focus on irrigated cotton, and Kerry Packer, *Australia's* richest person, has properties adjoining the massive Ord River Scheme in Western Australia that are also holders of water licences.

The market for water is growing rapidly. Exchanges that facilitate trading water licences are springing up across Australia's vast irrigation areas. Brokers compete for water trading business and web pages now exist to facilitate water trading on-line.

Water licences are increasingly becoming a separate property right. For the first time, the value of water is being separated from the value of land and the market is increasingly putting a price on this water.

As a separate property right, the casual illegal diversion of water – a not uncommon event – becomes a lot more than taking extra water from the river system and tricking the government. Partly due to environmental concerns, but mostly due to rising prices, it is now seen as outright theft.

"In the past three years water trading has just exploded. Up to 1985 there was little change. In the late 1980s change accelerated. This decade change has been phenomenal," *says David* Watts, chief executive of Murray Irrigation. In the Murray area there were three water trades in 1994. This year there will be over 50, and at more than double 1994 prices.

Historically, water has been administratively allocated to rural producers by state governments or some form of water management agency. Irrigators were given a licence or right to a nominal quantity of water.

However, environmentalists believe over-issuance of licences has created low water levels in rivers and caused outbreaks of blue/green algae blooms. Economists, meanwhile, suggest water usage could have been *more efficient*, priced nearer to levels of cost recovery, and perhaps have been more environmentally friendly.

"In the absence of water trading, achieving efficient use of water would have required an efficient allocation of water resources," says an official at Abare, an Australian government economic research agency. This would have required a great deal of information and expertise, he adds.

The reform of water allo*cation and usage has* been under way since 1992 when the government decided to try to recoup the costs of distributing and managing water.

Water is now priced in two ways. The first is a charge, set by water agencies, for water used by irrigators under their licences. These charges are increasingly being based on the actual costs of supply and delivery.

At the moment in the Namoi Valley in northern New South Wales, for example, there is a fixed charge of A$6.48 (US$4.19) a megalitre for high security licences and A$4.32 a megalitre for low security licences. There is also a usage charge of A$5.04 a megalitre.

With the advent of trading, irrigators can now buy and sell water licences on a temporary or permanent *basis*.

Temporary sales occur when one grower may need a little extra water beyond his allocation and buys this from another farmer who that season may have excess water or can earn more from selling it than using it.

In the Namoi Valley, the cost of temporary water licences ranges from A$15 to A$40 a megalitre depending on seasonal conditions.

Permanent transfers, where water licences are actually sold by one irrigator to another, have been trading since the early 1990s.

The prices of permanent transfers vary by region and are determined by availability of such licences and the purpose and profitability of the activity to which that water is flowing.

Highly profitable cotton growers, for example, have recently been paying *about* A$1m per 972 megalitre permanent licence or about A$1,028 per megalitre.

Changes in the water industry have been explosive but there is still a long way to go, say water specialists. They suggest that water ownership rights remain vague and dramatic institutional reform is required. If the government gets it right, the water trading business is likely to show strong growth.

Cotton growers pay about A$1m for a 972 megalitre licence

Silver suffers sharp drop in New York

MARKETS REPORT

By Gillian O'Connor, Robert Corzine and Paul Solman

Silver prices plummeted in New York as traders came back from the previous day's holiday and started selling.

The price, which began the year at 503 cents an ounce, and had reached 575 cents in London on Monday, tumbled back to about 540 cents yesterday. The cost of borrowing silver from the bullion banks also dropped sharply overnight.

Traders have various theories to explain what has been going on, but most admit that they do not really know. Warren Buffett's annual statement as chairman of Berkshire Hathaway, due next month, is eagerly awaited; *just over a year ago* he announced he had bought 130m ounces of silver.

US selling also pushed copper down to a new "lifetime low" of 63.50 cents per lb.

On the London Metal Exchange all base metals finished the day lower, except lead and zinc. Worst hit was nickel, which lost almost 4 per cent.

Oil prices fell yesterday towards the bottom end of their recent trading range. The price of Brent Blend for April delivery was $10.05 a barrel in late trading on London's International Petroleum Exchange, down 32 cents from Monday's close.

The latest fall came as Sir John Browne, chief executive of BP Amoco, warned in a speech in London that prices below $10 were unsustainable "because the fundamentals of supply and demand would be disrupted by lack of investment".

Commenting on the 47 per cent fall in the Brent crude price over the past 18 months, Sir John said "the only thing that would produce a price increase in the short term would be further constraints on production", given that stock levels remain high.

He said the logical corporate *response to low crude* prices was to concentrate on margins, rather than volumes, which has been BP's main focus in recent years.

Robusta coffee futures fell sharply on the London International Financial Futures and Options Exchange yesterday, amid selling by funds. The most actively traded March contract ended at $1,742 a tonne, down $37 from Monday's close, while second position May closed down $41 at $1,650 a tonne.

Analysts raise zinc deficit estimates

By Gillian O'Connor Mining Correspondent

Metals analysts are increasing their estimates of the probable zinc supply deficit, following last week's announcement of the temporary closure of the Italian Crotone smelter.

"Zinc fundamentals remain best of all base metals," said Flemings after last week's announcement that the Crotone smelter was being closed for refurbishment. Several other analysts have taken the same line. Zinc prices have risen by a tenth in the past few weeks.

Yet all agree there is considerable doubt about what is actually happening at Crotone, whose fate is a politically sensitive issue for the Italian government.

Ted Arnold of Prudential Bache said: "The Crotone plant in southern Italy has closed down while the new owners undertake rehabilitation and expansion work. They are doubling the size to 200,000 tonnes a year of zinc metal. A shutdown of 18 months is possible."

Many industry watchers say it could take three years to complete the project. Privately, many suggest the smelter will never reopen but add that it would be politically unacceptable for the owners or the Italian government to admit this.

Crotone is in Calabria, where unemployment is *high. Industry watchers say* when the Switzerland-based metals trader Glencore bought the Porto Vesme business from Eni, the Italian state-controlled energy company, late last year, it refused to buy Crotone.

But in the short term analysts are reworking their supply/demand sums, assuming that Crotone's output of about 70,000 tonnes a year can be taken out of the equation for the next two or three years.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

[illegible]

Precious Metals continued

[illegible]

ENERGY

[illegible]

PRECIOUS METALS

[illegible]

GRAINS AND OIL SEEDS

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Feb	840	–5	840	840	[illegible]	107
Mar	903	–2	920	900	96	165
Apr	955	–	970	950	25	1,006
Jul	840	+5	850	845	6	602
Oct	950	+10	950	950	[illegible]	376
Total					137	2,380

	Close	Prev
BFI	821	818

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	396.50	+0.25	–	–	–	368
Jun	417.25	+1.00	–	–	–	298
Total					–	721

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa There was stronger and improved general demand. BP1s of all descriptions were dearer with the exception of a few poorly sorted lower mediums and plainer sorts which were easier. Selected best PF1s were substantially dearer following quality; other brighter descriptions and mediums gained 5-10 cents. Lower medium PF1s advanced by 5-20 cents and sometimes more with plainer sorts fully firm. A few best PDUSTs showed market gains while other bright types were irregular but on balance firm; mediums appreciated by 2-10 cents with lower mediums up by 2-20 cents.

SOFTS

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Mar	87.45	+0.80	90.50	87.25	3,471	15,383
May	85.90	+0.05	89.00	85.50	2,658	9,410
Jul	85.90	[illegible]	89.25	85.90	910	4,179
Sep	86.25	–0.40	89.50	87.50	706	1,339
Nov	85.75	–0.40	89.00	88.00	125	747
Jan	86.00	–0.40	89.00	88.00	144	455
Total					8,812	32,139

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 16	Feb 15	month ago	year ago
1432.4	1432.8	1501.0	1732.3

■ CRB Futures (Base: 1967 = 100)

Feb 12	Feb 11	month ago	year ago
186.77	187.16	–	–

■ GSCI Spot (Base: 1970 = 100)

Feb 12	Feb 11	month ago	year ago
132.87	132.87	139.42	170.84

LME WAREHOUSE STOCKS (tonnes)

Aluminium	–850	to	308,725
Aluminium alloy	–	[illegible]	91,180
Copper	+5,250	to	[illegible]
Lead	–	to	107,425
Nickel	–48	to	65,616
Zinc	–1,000	to	308,475
Tin	–45	to	7,175

MEAT AND LIVESTOCK

[illegible]

LONDON TRADED OPTIONS

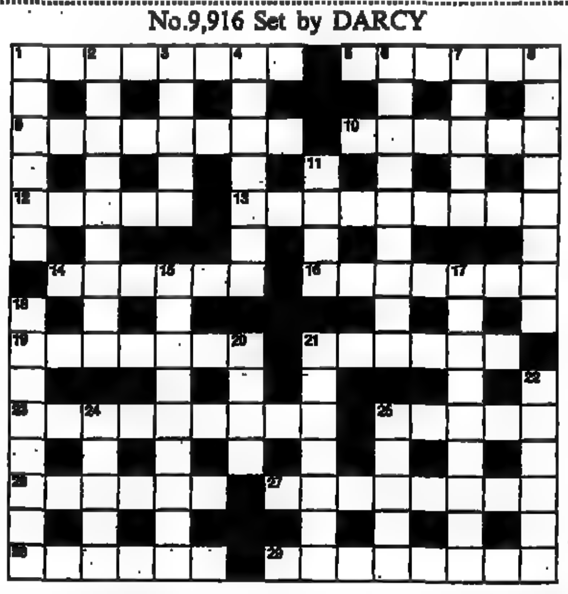
[illegible]

LONDON SPOT MARKETS

[illegible]

CROSSWORD

No.9,916 Set by DARCY



ACROSS
1 Support some scouts, and go hiking (8)
5 Where boss wants one ultimate type of scenario? (6)
9, 10 Complex arrangement for buying time (8,6)
12 Son's brought in grub – settle for the night (5)
13 Use handle carelessly, given total freedom (9)
14, 21 Means to pursue aim – teaching without 16? (6,6)
16 Caps? For pupils they were part of basic education (7)
19 Treasure of a woman one's brought into church (7)
21 See 14
23 Type of cloth, one that isn't feminine (9)
25 Meal left to be eaten by tea-time? (5)
26, 27 Means to abandon matter of some gravity – rapidly! (6,8)
28 Smile enigmatically about upper-class breakfast, perhaps (6)
29 Does he offer nanny great children to care for? (8)

DOWN
1 Writer seen around street café (6)
2, 11 Orderly group of kids found part of film gripping – that's its function (9,4)
3 Bird-seed? The very thing! (5)
4 Seek opinion by meeting objections over last month (7)
6 Doctor, possibly someone religious, accepting blame (9)
7, 24 Wife needs family friend, one offering serious advice (5,5)
8 You shouldn't take so much, even being patient (8)
11 See 2
15 Copies translation friend had of a certain 23 (9)
17 See 20
18 I suggested great comedian as a treat for the children (3-5)
20, 17 Come back east with no jokers about, managing domestically? (4,9)
21 Mr 7 composed hymn, always in verse (7)
22 Annoy architect, rejecting some colour in drawings (6)
24 See 7
25 Father has to admit expression of displeasure (5)

Solution 9,915

INSIDE TEAMWORK
CLOUDNINE DRIFT
OMEN WINDERMERE
EMANATE DETOUR
CLIENT SPONDEE
COASTGUARD TRUE
THING STIMULANT
RAGTRADE BENDER

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

Bank of Cyprus Group

[illegible]

Baring Intl Fd Mngrs (Ireland) Ltd

[illegible]

The Halal Mutual Investment Company Plc

[illegible]

Henderson Crosthwaite Investment Co

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

FT MANAGED FUNDS SERVICE

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE
INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Aberdeen Emrg Asia	$	[illegible]	[illegible]	[illegible]	[illegible]	–	28.3	18.1
Atlantis Japan Gwth Fd		[illegible]	[illegible]	[illegible]	[illegible]	–	346.9	22.4
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Baring Emrg Euro	$	[illegible]	[illegible]	178	[illegible]	–	128.6	18.7
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Brazilian IT	N	[illegible]		[illegible]	[illegible]	3.1	–	–
Warrants		[illegible]		[illegible]		–	–	–
Central Euro Gwth	$	[illegible]	[illegible]	[illegible]	[illegible]	–	55.2	18.4
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
East German		[illegible]	[illegible]	13	[illegible]	–	21.5	40.7
Egypt Trust $		719	[illegible]	[illegible]	[illegible]	2.2	–	–
First Latin American $		[illegible]	[illegible]	[illegible]	[illegible]	–	91.8	19.6
Warrants		[illegible]		78	[illegible]	–	–	–
1st Russian Frontiers $		[illegible]	[illegible]	1100	140	–	424.3	48.1
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Warrants B		[illegible]		[illegible]	15	–	–	–
Five Arrows Chile		[illegible]	[illegible]	[illegible]	[illegible]	–	138.1	24.8
Warrants		1		[illegible]	[illegible]	–	–	–
Govett Asian Smlr	$	[illegible]	[illegible]	[illegible]	31	1.9	90.7	28.5
[illegible] Asia Co.	$	[illegible]	+1	[illegible]	[illegible]	0.7	34.9	25.5
Warrants		[illegible]		75	[illegible]	–	–	–
Indonesia Fund		[illegible]	[illegible]	145	[illegible]	–	–	–
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Israel Fund $		[illegible]	[illegible]	[illegible]	[illegible]	–	67.1	11.2
Korea-Europe $	$	[illegible]	[illegible]	[illegible]	[illegible]	4.0	244.1	22.3
Korea Liberal $		[illegible]	[illegible]	[illegible]	[illegible]	–	170.8	30.1
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Lazard Birla India	$	[illegible]		[illegible]	[illegible]	–	–	–
Warrants		[illegible]		[illegible]	[illegible]	–	–	–
Schroder Korea Fd $	$	[illegible]	-1	[illegible]	[illegible]	–	–	–

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
VI		16	—	[illegible]	14½	–	–	10.2
Victory Corpn		[illegible]	—	[illegible]	[illegible]	–	–	–
Virtual Internet		177½	+1½	341½	105	–	–	–
Vitol		[illegible]	—	[illegible]	[illegible]	–	–	31.9
Weather Action		[illegible]	-1½	175	[illegible]	–	–	–
Westco Group		[illegible]	—	[illegible]	[illegible]	–	6.9	8.7
West 175 Ents		[illegible]	—	[illegible]	[illegible]	–	–	–
West Bromwich Albion		[illegible]	—	[illegible]	[illegible]	–	–	13.3
Western Select		[illegible]	—	13	7¼	–	3.6	27.4
Westmount Energy		17½	—	[illegible]	17½	–	–	[illegible]
Willington		[illegible]	—	[illegible]	[illegible]	–	8.0	3.1
Winchester		[illegible]	—	[illegible]	[illegible]	–	–	34.3
World Telecom		[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Xavier Computer		14½	—	[illegible]	[illegible]	–	–	13.8
Yeoman		[illegible]	—	[illegible]	[illegible]	–	–	[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,600 a year for each security shown, subject to the Editor's discretion.

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Barclays and Lloyds bankroll surge toward highs

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Another power-packed performance by the banks, plus a sprinkling of exceptional gains among the consumer areas of the market, propelled the London equity market to within striking distance of record levels yesterday.

The FTSE 100 index surged forward from the outset of trading, its fourth winning session, closing a net 85.4 higher at 6,108.6, only 70.4 away from its closing high of July 20 last year. Its intra-day high was 6,195.6 on January 8 this year.

At its best yesterday, *shortly* after Wall Street opened for business, the FTSE 100 was up 110, and threatening a run at its best. But it could not maintain the momentum, dribbling off its high, as the Dow Jones Industrial Average slipped back from an early three-figure rise.

Not long after London closed its trading books for the day, the Dow was showing a 60 point gain.

During its four-day run, the index *has climbed* 338.4, or 5.9 per cent. Prior to those gains, the market had dropped for six consecutive sessions, sliding 242.8 or 4 per cent.

The latest upsurge in prices of the leading 100 companies was even more impressive, coming in the wake of a slightly disappointing set of inflation figures for January, which were interpreted by some as reducing the chances of another reduction in UK interest rates next month.

But that news was balanced by a better-than-expected public sector net *cash* surplus of £12.38bn, which compared with a consensus forecast of £10bn.

The exceptional gains in the leaders did not spill over into the rest of the market, however. The FTSE 250 delivered a much more modest 23.7 gain at 5,200.9, while the FTSE SmallCap made rather laboured progress all day, eventually finishing 7.5 firmer at 2,248.1.

Marketmakers were surprised by the pace of the market's advance. "I thought we would be much more cautious as the preliminary reporting season unfolds and in front of some important US *corporate reports*," said one. "But it looks as if the Lloyds and Barclays news has reassured the worriers and we're back on track. It won't take much to get the FTSE 100 through to new records," he continued.

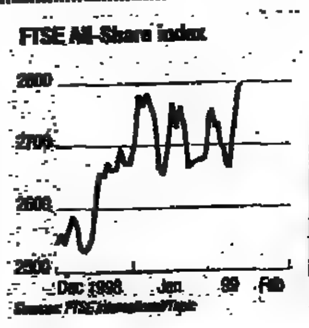
Although posting a 6 per cent rise, Barclays was eclipsed by NatWest, which vied for pole position on the Footsie leader board ahead of results due next Tuesday.

Some of the market's optimists now expect the FTSE 100 to run on towards the 6,500 level in the short to medium term, bursting through its best levels.

"Much of the market's unease before this latest good run, was caused by concerns that the early results from the market's giants – the banks, British Telecom and others – might disappoint. But the talk now is that we'll soon be looking at the first of the big cross-border banking mergers," he said.

Turnover, as expected, picked up *strongly* after Monday's relatively poor level, which was attributed to the absence of US-sourced business because of the Presidents' day holiday. At the 6pm cut-off, turnover was 1.08bn shares.

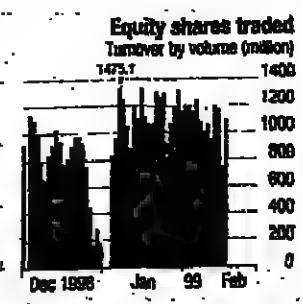
FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	6108.6	+85.4	FT 30	3697.7	+48.0
FTSE 250	5200.9	+23.7	FTSE Non-Fins p/e	24.35	24.22
FTSE 350	2892.9	+36.3	FTSE 100 Fut Mar	6120.0	+100.0
FTSE All-Share	2795.38	[illegible]	10 yr Gilt yield	4.64	4.67
FTSE All-Share yield	2.78	2.80	Long gilt/equity yld ratio	1.68	1.65

Best performing sectors

1. Banks: Retail +3.96
2. Tobacco +3.93
3. Life Assurance +3.12
4. Other Financial +2.86
5. Insurance +2.52

Worst performing sectors

1. Extractive Industries −2.92
2. Diversified Industrials −2.32
3. Resources −1.77
4. Oil: Integrated −1.67
5. Gas Distribution −1.51

Digital fight hits Carlton

COMPANIES REPORT

By Peter John, Joel Kibazo and Simon Berdfeldt

Carlton Communications fell 20 to 588p. Michael Savage at Collins Stewart has slapped a "sell" sign on the stock and says the company's des*tiny is in the hands of* the digital television market, which is still digesting the market-beating subscriber numbers announced by BSkyB last week.

"The battle for control of digital television is just one huge game of poker," said Mr Savage. "It will get increasingly ugly, the consumer will benefit and, in the short term, shareholders in both groups will suffer."

There was also some confusion after a news wire story said Michael Green, Carlton chairman, was standing down as a non-executive director. The story explained that Mr Green was leaving the board of Reuters Group, but some dealers apparently linked the departure to Carlton.

Collins Stewart prefers Reuters, which it rates a "strong buy" and which jumped 22½ to 870p, and Pearson, a "buy" which built on Monday's 68p gain with an early gain of 30. The shares then ran into late profit-taking and ended 6 higher at £13.71.

The ability of high street banks to rouse the market was reaffirmed by Barclays.

Exposure to the black holes of last year – Long Term Capital Management, Russia and Asia – was forgotten as Barclays came up with figures and a dividend at the top of the range of forecasts.

And the rabbits out of the hat were a public commitment to rein in costs plus a £500m share buy-back.

"People had got into a mind-set of downgrades, but once again rumours about the death of UK banking have been grossly overstated," said Richard Coleman of Merrill Lynch. "It was a clean set of figures."

Already towards the top of the range of forecasts, Mr Coleman went from £2,370m to £2,440m for this year. Elsewhere, Credit Lyonnais raised its price target on the stock by 10 per cent to £17.50. Warburg Dillon Read reiterated a "strong buy" with a target of £18.00.

Barclays rose 102 to £16.92 and National Westminster, which reports next week, gained 97 to £13.79.

Mining group Rio Tinto fell 35¼ to 791p following news that its Hamersley iron ore unit had reached a lower-than-expected iron ore price settlement with Japanese steel mills.

Rio has agreed price cuts of between 10.2 to 11 per cent. Analysts had been expecting a cut of around 8.5 per cent on a weighted average basis, but said the overall impact on earnings would be limited by the build-up of volume.

Rio has rallied strongly in the last 10 days, jumping from around 750p to a high of 841p on Monday following broker upgrades amid small signs of a pick-up in metal prices. Deutsche Bank believes the stock has further to run and has upgraded its its recommendation from "underperform" to "outperform" with a 12-month price target of £10.50.

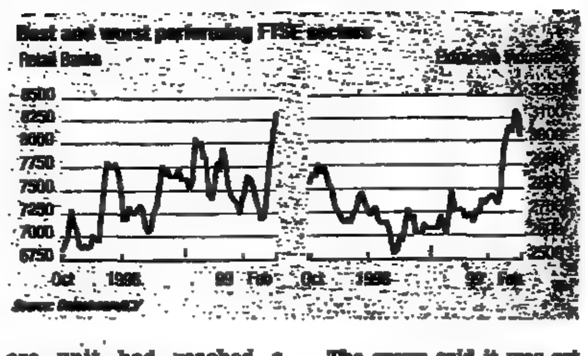
Negative press sentiment overshadowed food distributor Booker. The shares fell 8½ to 56p.

The announcement of a new employee share options scheme and and recommendations from brokers helped retailer Boots claw back most of Monday's losses. The shares improved 32½ to 926½p after trade of 3.9m.

The group said it was setting up a qualifying employee share ownership trust (Quest) to facilitate the holding and distribution of shares for its employee share options scheme. Boots said it would buy shares in the market rather than issue new ones.

In the rest of the sector, Kingfisher was in demand, the shares gaining 47 to 701p, while the firm market trend saw Arcadia Group harden 6 to 178½p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Power loses muscle

National Power lost some of its muscle after a presentation by the company to institutions at Dresdner Kleinwort Benson. Analysts said National Power's finance director was damping expectations of a demerger of its international operations. The shares dropped 6½ to 530p.

Leisure company Rank Group, which reports full-year figures tomorrow, was out of favour, and the shares declined 1½ to 204p as the security of the dividend remained in doubt.

Lehman Brothers, which has an "underperform" rating on the stock, yesterday published a negative note in which analyst Fraser Ramzan said there was a "question mark over the dividend which is covered just 1.3 times on our earnings estimates".

The broker expects the group to report profits of £249m, down from £303m last year, and a 13 per cent decline in earnings per share.

"We do not expect any relief in the fourth quarter from the dismal trading newsflow that led to the departure of Andrew Tear [former chief executive] when the third-quarter sales were announced," said the note to clients.

Bruce Jones at Merrill Lynch expects the group to report profits around the £255m mark: "It has not been a good year for Rank and there is no quick fix."

ICI has failed to share in the Footsie's recovery over the last few sessions, as worries about future profits have restrained the shares.

With the Footsie up almost 6 per cent since Wednesday's close, ICI has managed to recover by only half as much. The team at Sutherlands has a current-year forecast of only £245.5m. In 1994, the year after the chemicals company hived off Zeneca, it made profits of £514m. The stock price nudged ahead to 544½p.

Packaging company Low and Bonar fell 15 to 165p on a volume of 2.2m after announcing profits for 1998 had fallen and 1999 would be a "difficult year". Brokers said the stock was at a discount to the rest of the sector and was undervalued.

Companies falling after rises on Monday included Internet company On-Line, down 26 to 165p, and shopfitter Havelock Europa, down 12 to 57½p.

Freeport Leisure, the property developer, rose 27 to 428½p. Analysts said the company was on a big premium to net asset value and was a potential bid target for companies looking to acquire factory outlet retail sites.

Publisher Quarto rose 6 to 63½p after announcing end-of-year results and an expected return to profit in 1999.

FT 30 INDEX

	Feb 16	Feb 15	Feb 12	Feb 11	Feb 10	Yr ago	*High	*Low
FT 30	3697.7	3649.7	3628.3	3658.1	3540.1	3498.1	4084.9	2790.8
Ord. div. yield	2.81	2.85	2.87	2.90	2.87	3.06	4.22	2.72
P/E ratio net	23.90	23.57	22.61	23.10	22.81	22.13	25.41	15.80
P/E ratio nil	23.80	23.46	22.52	23.01	22.52	N/A	25.19	15.71

FT 30 since compilation: high 4084.9 7/10/98; low 49.4 26/6/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3649.7	3690.5	3698.4	3696.6	3706.7	3697.8	3702.3	3692.5	3710.6	3649.7

STOCK MARKET TRADING DATA

	Feb 16	Feb 15	Feb 12	Feb 11	Feb 10	Yr ago
SEAQ bargains	92,154	77,802	86,003	72,185	69,461	[illegible]
Equity turnover (£m)†	-	-	[illegible]	4438.0	4345.4	n/a
Equity bargains†	-	-	77,892	64,103	58,787	n/a
Shares traded (m)†	-	-	1070.2	1061.0	990.7	n/a
Total market bargains‡	-	-	91,035	78,610	67,420	-
Total turnover (£m)‡	-	-	5730.7	5584.7	5201.2	-
Total shs traded (m)‡	6116.0*	1772.1	1299.2	1345.9	1185.0	-
Tradepoint turnover (£m)	35.5	26.4	25.6	44.0	40.0	13.5
Tradepoint shrs traded(m)	13.1	9.8	12.3	12.8	13.9	6.8

†Excluding intra-market and overseas turnover but including Crest transfers. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	814	Total Highs	41	Total contracts	51,408
Total Falls	665	Total Lows	47	Calls	29,097
Same	1,379			Puts	22,312

Feb 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6048.0	6110.0	+90.0	6128.0	6035.0	33977	169953
Jun	6152.0	6143.0	+92.5	6152.0	6145.0	262	15708
Sep		6185.0	+90.0			0	1650

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5183.0	5202.0	+30.0	5198.0	5183.0	380	3423
Jun	5195.0	5219.5	+29.5	5209.5	5195.0	869	5995

FTSE 100 INDEX OPTION (LIFFE) (*6108) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Feb 16	Day's chge%	Euro Index	£ Stlg Feb 15	Year ago	Gross yield%	Net yield%
FTSE 100	6108.6	+1.4	6953.1	[illegible]	5709.5	2.85	2.29
FTSE 250	5200.9	+0.5	5918.9	[illegible]	5007.8	3.22	2.78
FTSE 250 ex Inv Tr	5225.8	+0.3	5948.2	5208.4	5030.7	[illegible]	2.80
FTSE 350	2892.9	+1.3	3292.8	2856.6	2715.1	2.74	2.36
FTSE 350 ex Inv Tr	2900.0	+1.2	[illegible]	2863.6	2720.7	2.75	2.37

[illegible]

TRADING VOLUME

Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 16) 1 € = 13.76030 Sch

BELGIUM/LUX (Feb 16) 1 € = 40.33990 Frs.

GERMANY (Feb 16) 1 € = 1.95583 Dm.

FINLAND (Feb 16) 1 € = 5.94573 Mka

FRANCE (Feb 16) 1 € = 6.55957 Frs.

IRELAND (Feb 16) 1 € = 0.78756 Punt

ITALY (Feb 16) 1 € = 1936.27000 Lire

NETHERLANDS (Feb 16) 1 € = 2.20371 Fl.

PORTUGAL (Feb 16) 1 € = 200.48200 Esc.

SPAIN (Feb 16) 1 € = 166.38600 Pts.

EUROPE (NON–EMU)

CZECH REP (Feb 16 / Korune)

DENMARK (Feb 16 / Kr)

GREECE (Feb 16 / Drachma)

NORWAY (Feb 16 / Kroner)

POLAND (Feb 16 / Zloty)

SWEDEN (Feb 16 / Kronor)

SWITZERLAND (Feb 16 / Frs.)

TURKEY (Feb 16 / Tk Lira)

PACIFIC

JAPAN (Feb 16 / Yen)

AUSTRALIA (Feb 16 / Aust$)

HONG KONG (Feb 15 / H.K.$)

INDONESIA (Feb 16 / Rupiah)

MALAYSIA (Feb 12 / MYR)

NEW ZEALAND (Feb 16 / NZ $)

SINGAPORE (Feb 15 / S$)

SOUTH KOREA (Feb 12 / Won)

TAIWAN (Feb 16 / TW $)

THAILAND (Feb 16 / Baht)

AMERICAS

CANADA

TORONTO (Feb 15 / Can $)

4 pm close

MONTREAL (Feb 16 / Can $)

4 pm close

MEXICO (Feb 16 / Peso)

12.30 pm

AFRICA

SOUTH AFRICA (Feb 16 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY FEBRUARY 15 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY FEBRUARY 12 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	212.94	−0.4	193.87	155.50	218.23	219.24	−0.3	3.35	213.79	194.52	154.47	218.29	219.99	219.96	163.86	206.50
Austria (21)	177.14	1.4	161.28	129.36	160.19	160.19	1.7	2.08	174.78	159.02	126.28	157.47	157.47	253.73	165.27	196.57
Belgium (22)	399.18	0.2	363.44	291.50	353.43	353.43	0.5	1.91	398.28	362.38	287.77	351.33	351.33	446.95	273.46	273.46
Brazil (29)	107.59	0.3	97.96	78.57	110.27	376.29	−0.0	8.17	107.31	97.64	77.54	109.57	376.29	269.34	89.32	235.46
Canada (113)	205.77	0.6	187.35	150.26	210.88	222.48	0.5	1.78	204.62	186.18	147.85	208.93	221.32	248.78	159.94	220.48
Denmark (34)	454.34	−1.6	413.65	331.78	465.62	409.08	−1.1	1.73	461.50	419.90	333.45	471.21	413.79	537.33	420.12	457.50
Finland (29)	601.68	−1.2	547.80	439.39	668.19	668.19	−0.8	1.57	608.75	553.88	439.84	673.54	673.54	661.25	326.65	326.65
France (74)	319.23	−0.4	290.64	233.11	292.34	292.34	−0.1	2.10	320.58	291.68	231.63	292.49	292.49	354.45	246.64	245.64
Germany (55)	261.08	−0.5	237.70	190.65	236.26	236.26	−0.2	1.39	262.48	238.82	189.65	236.65	236.65	325.67	226.35	239.80
Greece (36)	429.65	1.6	391.18	313.75	440.33	882.21	1.9	0.97	423.07	384.94	305.69	431.98	865.62	429.85	211.47	–
Hong Kong, China (66)	277.68	−0.4	252.81	202.77	284.58	276.25	−0.4	4.42	278.83	253.69	201.46	284.70	277.42	362.55	196.64	332.29
Indonesia (24)	49.02	0.7	44.63	35.80	50.24	258.62	−0.5	1.18	48.69	44.30	35.18	49.71	259.85	64.52	19.04	42.64
Ireland (14)	543.06	−1.0	494.43	396.57	536.36	536.36	−0.6	1.78	548.49	499.05	396.30	539.71	539.71	605.85	386.15	444.11
Italy (53)	166.43	1.1	151.53	121.53	214.19	214.19	1.4	1.45	164.66	149.81	118.97	211.12	211.12	192.64	128.68	133.23
Japan (445)	98.89	−0.6	90.03	72.21	101.34	72.21	0.5	1.03	99.44	90.48	71.85	101.54	71.85	107.62	76.83	106.28
Mexico (29)	1190.76	0.4	1084.13	869.55	1220.35	12934.54	0.0	1.98	1186.07	1079.16	856.98	1211.04	12929.00	1733.73	787.15	1549.25
Netherlands (26)	488.52	−0.4	444.77	356.74	437.30	437.30	0.0	2.17	490.48	446.27	354.39	437.43	437.43	562.73	394.92	418.38
New Zealand (16)	64.53	−1.9	58.75	47.12	66.13	62.08	−1.4	4.66	65.75	59.82	47.51	67.13	63.65	77.84	45.68	77.53
Norway (37)	234.10	−1.0	213.14	170.95	239.92	243.11	−0.6	2.40	236.43	215.12	170.83	241.41	244.63	357.71	181.86	296.91
Philippines (22)	84.15	−0.9	76.62	61.45	86.24	162.09	−0.5	1.00	84.91	77.26	61.35	86.70	162.91	106.98	42.48	88.21
Portugal (18)	254.49	−0.2	231.70	185.84	310.80	310.80	0.2	1.06	254.92	231.94	184.19	310.17	310.17	299.39	194.13	–
Singapore (40)	198.55	0.7	180.77	144.99	203.49	154.77	0.7	1.80	197.21	179.43	142.49	201.38	153.88	246.74	102.45	210.30
South Africa (95)	190.46	−1.8	173.41	139.08	195.20	255.19	−1.2	3.48	193.64	176.19	139.91	197.72	258.18	346.20	151.55	273.91
Spain (30)	386.19	1.2	351.61	282.01	433.24	433.24	1.6	1.86	381.53	347.14	275.67	426.43	426.43	436.19	290.81	300.18
Sweden (43)	522.96	0.1	476.13	381.89	535.96	611.76	0.3	1.92	522.64	475.53	377.63	533.64	610.07	628.19	379.18	492.83
Switzerland (30)	393.32	−0.1	358.10	287.22	403.10	348.72	0.4	1.23	393.65	358.16	284.42	401.93	345.42	441.65	307.73	373.95
Thailand (31)	22.33	1.9	20.33	16.31	22.89	31.89	1.5	2.77	21.91	19.94	15.83	22.37	31.41	33.84	8.15	28.50
United Kingdom (201)	381.33	1.0	347.19	278.47	390.81	347.19	1.1	2.81	377.61	343.58	272.84	385.58	343.58	401.84	307.98	356.37
USA (613)	507.22	−0.0	461.80	370.40	519.82	507.22	−0.0	1.29	507.22	461.50	366.48	517.90	507.22	527.72	390.12	416.85
Americas (784)	450.32	0.0	409.99	328.84	461.51	382.21	0.0	1.33	450.22	409.63	325.30	459.69	382.14	467.90	347.58	377.80
Europe (723)	351.35	0.3	319.89	256.58	360.08	327.82	0.5	2.07	350.42	318.84	253.19	357.80	326.06	386.24	282.63	308.26
Eurobloc (342)	100.58	−0.1	91.57	73.45	98.51	98.51	0.3	1.78	100.67	91.60	72.74	98.24	98.24	113.92	81.53	–
Nordic (143)	497.45	−0.6	452.99	363.33	509.91	504.82	−0.3	1.85	500.49	455.37	361.62	511.02	506.29	555.97	360.04	433.24
Pacific Basin (721)	106.39	−0.5	96.86	77.69	109.04	80.41	0.3	1.56	106.94	97.30	77.27	109.19	80.14	117.89	82.88	115.10
Euro-Pacific (1444)	208.20	0.0	189.58	152.04	213.38	173.34	0.5	1.83	208.12	189.36	150.38	212.50	172.52	221.79	166.00	195.67
North America (726)	486.86	0.0	443.26	355.53	498.96	487.58	0.0	1.31	486.77	442.89	351.70	497.01	487.49	506.43	374.92	404.29
Europe Ex. UK (522)	324.90	−0.1	295.80	237.26	332.97	308.81	0.3	1.70	325.21	295.89	234.97	332.05	307.74	366.32	260.93	275.71
Europe Ex. Eurobloc (381)	96.95	0.6	88.27	70.80	99.36	97.68	0.8	2.98	96.33	87.65	69.60	99.36	96.90	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	96.50	−0.1	87.86	70.47	98.90	94.24	0.3	1.45	96.58	87.89	69.79	98.63	93.96	109.21	75.16	–
Pacific Ex. Japan (276)	179.32	−0.3	163.27	130.95	183.78	181.06	−0.3	3.81	179.95	163.73	130.02	183.74	181.64	216.04	128.26	199.00
World Ex. Eurobloc (1921)	104.58	0.1	95.22	76.37	107.18	103.34	0.2	1.57	104.53	95.11	75.53	106.73	103.13	108.05	83.09	–
World Ex. US (1650)	207.61	0.1	189.02	151.61	212.77	178.31	0.5	1.95	207.51	188.80	149.93	211.88	177.49	221.91	165.95	198.92
World Ex. UK (2062)	296.79	−0.1	270.21	216.73	304.16	288.70	0.1	1.46	297.05	270.27	214.63	303.30	265.79	311.48	238.11	260.86
World Ex. Japan (1818)	408.15	0.1	369.78	298.59	416.24	396.65	0.2	1.66	405.79	369.21	293.20	414.33	397.93	427.99	320.58	350.51
The World Index (2263)	304.07	0.0	276.84	222.06	311.63	273.53	0.2	1.80	304.68	276.68	219.65	310.40	272.94	318.51	242.36	268.95

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Emerging markets: IFC investable indices

Dollar terms

Feb 15 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	755.29	+0.7	−5.3
Brazil	223.74	+0.3	−18.7
Chile	462.98	−0.4	+2.6
Colombia[1]	373.20	+0.6	−15.1
Mexico	503.74	+0.4	+4.6
Peru[2]	133.88	+0.6	−0.4
Venezuela[3]	373.35		−17.6
East Asia			
China[4]	22.87	−0.8	−12.6
India[7]	68.49	−0.7	+8.2
Indonesia[4]	22.69	−0.1	−8.3
Korea[8]	51.76		−2.4
Malaysia	88.91		+0.4
Pakistan[9]	86.74	+5.3	−8.3
Philippines	115.68	−1.1	−6.0
Sri Lanka[10]	73.91	+0.7	−10.3
Taiwan, China[4]	108.06		−6.7
Thailand	60.23	+0.2	−4.7
Europe			
Czech Rep	43.60	−1.3	−14.1
Greece	769.84	+1.6	+24.3
Hungary[11]	284.56	−1.4	+1.4
Poland[12]	529.92	−3.4	+1.2
Portugal	288.00	−0.4	−1.4
Russia	27.33	−2.4	+16.5
Slovakia	44.62	−0.3	+2.3
Turkey[14]	161.96	+0.2	+10.7
Mideast/Africa			
Egypt	76.71	+2.2	+19.0
Israel	102.43	+1.3	+0.2
Jordan	237.65	+4.7	+9.7
Morocco	171.29	−0.7	+2.2
S Africa[15]	132.03	−1.3	+5.4
Zimbabwe[16]	105.43	+0.8	+0.1
Regions			
Composite	189.51	−0.0	−0.1
Latin America	396.52	+0.3	−5.5
Asia	102.37	−0.1	−4.3
EMEA	123.26	−0.2	+7.6
Europe	165.14	+0.1	+10.3
Eastn Europe	59.58	−2.2	+2.5
ME & Africa	55.33	−0.6	+5.1
Comp + Malay	189.33	−0.0	−0.1
Asia + Malay	104.44	−0.1	−3.4

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition

Prices supplied by Financial Times Information.

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4 pm close February 16

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

120	80½	Xerox	1.60	1.4	22	11103	120¼	114½	114¾	-3½
[illegible]	[illegible]	XI Cap x	1.76	2.9	9	20787	61	[illegible]	[illegible]	[illegible]
[illegible]	37½	Xtra Corp			18	237	39¾	39	[illegible]	
31	22½	Yankee Ey	1.36	5.8	21	84	24¾	23⅞	[illegible]	[illegible]
[illegible]	27½	York Int	0.48	1.3	10	1144	37½	36½	[illegible]	[illegible]
[illegible]	[illegible]	Zapata			3	829	[illegible]	[illegible]	[illegible]	[illegible]
50	31	Zeneca	0.80	1.9	32	2787	[illegible]	41¾	41⅞	[illegible]
30½	20⅞	Zenith Nat	1.00	4.5	16	375	22¾	22¼	[illegible]	[illegible]
[illegible]	[illegible]	Zenix Inc	0.70	11.5		163	[illegible]	[illegible]	[illegible]	[illegible]
14⅛	8¾	ZweigFdA	1.08	10.5		400	10¼	[illegible]	10¼	
[illegible]	8¼	Zweig Tot x	0.84	10.1		1033	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Financial Times Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

advertisement

IN.SECTS (Pan European Sector Indices from EuroBench®)

The IN.SECTS - pan European equity sector indices from EuroBench® - contain only those liquid stocks that show strong sectoral behaviour in their price-movements. Therefore, the indices really represent the core sector trend. Using the correlation of each constituent with the sector trend to weight the constituents, an even weighting is achieved ensuring maximal diversification while offering the best sector tracking available. (Values preceded with IK = indicative).

Sector			SETT 16-02-1999	Close 16-02-1999	Previous 15-02-1999	Change on day	% Change	52 WEEK HIGH	52 WEEK LOW
[illegible]	(Financials EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Financials USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Consumer goods EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Consumer goods USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Oil EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Oil USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Pharma-chemicals EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Pharma-chemicals USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Telecom EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(Telecom USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EuroBench is an independent index provider based in Brussels. Full information on the IN.SECTS and EuroBench is available on WWW.EURO-INSECTS.COM and WWW.EUROBENCH.COM. A free daily Email service can be subscribed to. For hard copy information and professional and private investor brochures call + 32 2 509 9460 or fax + 32 2 509 1389

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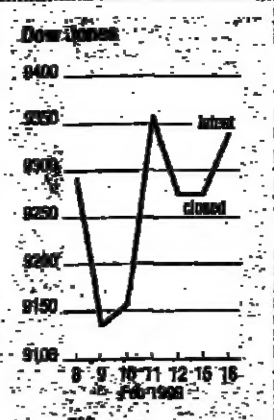
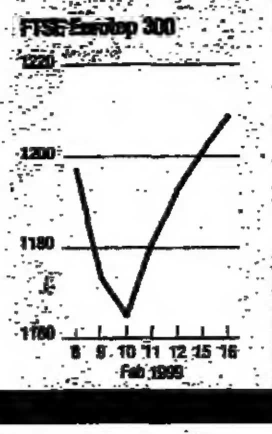
GLOBAL EQUITY MARKETS

US INDICES

US DATA





JAPAN

FRANCE

GERMANY

UK

■ RATIOS

	Feb 12	Feb 5	Jan 29	Year ago
Dow Jones Ind. Div. Yield	1.66	1.65	1.64	1.68
	Feb 10	Feb 3	Jan 27	Year ago
S & P Ind. Div. yield	1.15	1.10	1.12	1.42
S & P Ind. P/E ratio	38.00	39.55	38.57	27.61

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1236.10	1246.70	+8.40	1247.50	1234.00	108,257	385,718
Jun	–	1249.90	–	–	–	1,071	11,928
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14180.0	14230.0	+200.0	14370.0	14150.0	29,502	194,558
Jun	13970.0	14090.0	+180.0	14210.0	13970.0	688	37,561

■ CAC-40 (200 x index)	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Feb	4092.0	4081.0	–15.0	4131.0	4041.0	63,547	113,921
Mar	4117.0	4089.5	–15.0	4146.0	4059.0	3,736	62,173
■ DAX							
Mar	4927.0	4902.0	+10.5	4959.0	4883.0	43,136	205,499
Jun	4958.5	4930.0	+9.0	4971.5	4926.0	2,484	89,260

■ OMX	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Feb	721.00	721.50	+6.00	726.50	720.00	22,129	136,055
Mar	718.75	720.50	+7.50	724.25	718.75	4,614	4,502
■ EUREX							
Mar	7050.0	7022.0	+19.0	7078.0	7000.0	22,086	131,861
Jun	6983.0	6985.0	+82.0	7004.0	6954.0	262	4,320

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Feb 16	Feb 15	Feb 12	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	16577.12	16682.18	16500.00	23496.80 23/3/98	12303.10 10/9/98	4.15	12.1
Australia	All Ordinaries	2859.4	2877.8	2869.5	2940.50 4/2/99	2468.20 1/9/98	3.05	22.4
	All Mining	583.1	587.8	585.9	713.36 23/4/98	469.80 31/8/98		
India	BSE Sens.	3244.66	3315.66	3337.49	4280.96 21/4/98	2784.36 20/10/98	na	na
	S & P CNX 500	670.28	684.55	674.11	915.92 21/4/98	557.88 20/10/98		
Indonesia	Jakarta Comp.	398.84	398.92	400.55	554.18 3/2/98	256.83 21/9/98	2.47	19.9
Portugal	BVL 30	4840.44	4851.39			3698.08 2/10/98	2.04	27.3
	PSI 20	11441.74	11441.94	14283.00 22/4/98		8614.51 2/10/98		
Russia	RTS	65.59	64.00	65.16	411.81 5/1/98	38.59 5/10/98	na	na

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 16

AMEX

4 pm close February 16

EASDAQ

STOCK MARKETS

Rate concerns depress mood in euro-zone

WORLD OVERVIEW

Interest rate concerns preoccupied world markets yesterday, boosting Tokyo but depressing Europe, *writes Michael Peel.*

Even a strong start on Wall Street, returning after a holiday on Monday, failed to improve the negative mood in the euro-zone.

But Japanese investors responded positively to news that the finance ministry would resume its purchases of government debt. The decision precipitated a fall in long-term interest rates, which have risen in recent weeks.

Tokyo was one of a handful of Asian market to remain open for the start of Chinese New Year celebrations yesterday. Kuala Lumpur, Hong Kong, Seoul, Singapore and Taipei were shut.

Europe was dominated by worries that interest rates had bottomed out. Investors reacted glumly to the euro's fall to a record low against the dollar, reasoning that the currency's weakness made it unlikely that the European Central Bank would decide to cut rates at a meeting tomorrow.

Frankfurt epitomised the downbeat mood, finishing marginally ahead after creeping 1.3 per cent higher at one stage. Although London closed up 1.4 per cent, Paris ended lower.

With European markets generally subdued of late, investors' minds have been concentrated on choosing the right sectors to back.

Some strategists are cautious, warning that several of their peers have been too enthusiastic in recommending investors switch to stocks in cyclical industries.

Goldman Sachs remains underweight in the oil, paper, metals, chemicals and engineering sectors. It is overweight in telecoms and consumer stocks.

Those who are pessimistic about cyclicals think over-ambitious earnings forecasts across the board have helped push European bourses to unsustainable heights. In the event of a sharp dip in the market, investors will seek solace in large-capitalisation stocks with dependable income.

The more cautious strategists argue that the value of defensive stocks relative to cyclicals will increase if, as expected, inflation and bond yields continue to fall.

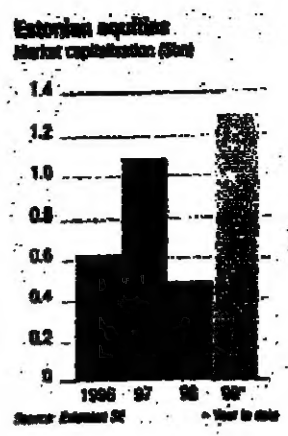
"We think it's a bit too early to start being too optimistic," says Alex Ions, European equity strategist at Dresdner Kleinwort Benson. "Our view is that the cheap stocks are going to look cheaper as they continue to underperform."

BT Alex Brown also reflects this cautious view, warning that markets in France, Finland, Spain and the Netherlands are most likely to experience a steep fall.

EMERGING MARKET FOCUS

Telecom gives Tallinn balance

The flotation last week of a 23.7 per cent stake in Estonia's telecommunications monopoly, Estonian Telecom, has nearly trebled the market capitalisation of the Tallinn stock exchange and put an end to the dominance of bank shares.



The initial public offering, the largest ever by a Baltic company, valued Estonian Telecom at EKr11.67bn ($838m) and raised EKr3.06bn for the government. The shares, initially priced at EKr85, closed at EKr119 yesterday.

The flotation has boosted the capitalisation of the Tallinn exchange from EKr6.92bn at the end of 1998 to EKr18.19bn, and the bourse is now the biggest in the Baltics.

The listing brings the Tallinn bourse capitalisation to a level not seen since the market boom of mid-1997. Then, banking shares accounted for more than 80 per cent of the capitalisation. Now, Estonian Telecom makes up about 50 per cent of the total, and bank shares 35 per cent.

One of the goals set by the Estonian government for the sale of Estonian Telecom was a well-spread investor base. About 80 per cent of the domestic demand from institutional and retail investors in Estonia for the flotation was satisfied, with the average size of domestic offers for retail investors at EKr99,000.

The offering may prove a palliative for the beleaguered bourse, which is still suffering the effects of the Russian crisis.

But trading results from the first few days suggest Estonian investors are likely to take the cue from the performance of Estonian Telecom global depositary receipts, which are listed in London.

"The price will be driven by London, where the majority of the shares were sold," said Sten Sumberg, head of sales and trading at Talinvest Suprema Securities in Tallinn. Of the 36m shares on sale, 30.9m were offered internationally in the form of GDRs.

Due to the strength of demand and the quality of investors – international institutional investors piled into the issue, which was 15 times over-subscribed – analysts have upped their price projections for the company.

"Initially we valued the stock at close to EKr80, but as domestic interest rates have gone down considerably, we are now valuing the share closer to EKr100," said Mr Sumberg.

Medium-term prospects for Estonian Telecom are mixed. Its monopoly on fixed-line services ends in January 2001, and the company is likely to face strong competition. However, Estonian Telecom is well positioned to cash in on the growth of the lucrative mobile-telephone market. The company can also expect strong growth in data and internet services, Mr Sumberg said.

The Estonian government, which will retain a golden share of 27.28 per cent in the company for at least another five years, is unlikely to saddle Estonian Telecom with burdensome regulations that could hamper its competitiveness, Mr Sumberg added.

Matej Vipotnik

Retailers join Dow rally after sell-off

AMERICAS

Blue-chip, retailing, and technology stocks all rallied in early trading on Wall Street, *writes John Labate in New York.*

"We're seeing some real bargain-hunting and reflex buying," said Arthur Hogan, chief market analyst at Jefferies & Co. in Boston. "I think we had an overdone sell-off last week."

By early afternoon, the Dow Jones Industrial Average was 64.63 higher at 9,339.52, easing from a morning rally that sent the blue-chip index 100 points higher. The Standard & Poor's 500 index rose 17.18 or 1.4 per cent to 1,247.31.

Truck maker Navistar International roared $5¾ or more than 16 per cent higher to $40¾ on speculation the company was in talks with Volvo of Sweden.

In the Dow, shares of Wal-Mart climbed $3¼ to $87 11/16 after the company released better earnings than expected. Financial shares also gained ground; Citigroup was up $1¾ to $53¾.

But cyclical shares in the Dow weakened, with Union Carbide off 5 per cent to $39 3/16 and Alcoa down $3 1/16 to $81¾.

The Nasdaq composite index gained 1.16 per cent or 26.91 to 2,348.80. Dell Computer climbed $2¾ to $92½ in anticipation of results due later in the day. But Hewlett-Packard fell $2 5/16 to $74 ahead of its results.

Bonds recovered after a volatile week. The 30-year Treasury bond was 15/32 higher by midday at 98 3/32, sending the yield lower to 5.366 per cent.

Retailing stocks were strong at the start of that sector's reporting season. Sharper Image climbed $1¾ or more than 12 per cent to $15 11/16 after the company reported quarterly results and launched a new internet programme. Kmart rose $¾ to $17¾.

Airline stocks were mostly higher. Delta Air Lines gained $¾ to $53 5/16 after announcing a $700m takeover of Atlanta Airlines. AMR climbed $¾ to $55 11/16 after most of its pilots returned to work after a week-long dispute.

TORONTO pared initial gains and was little changed at noon after a number of big sell orders in golds. The 300 composite index was 0.02 better at 6,447.60 after reaching a mid-morning peak of 6,472.85.

Golds tumbled as a strong dollar and weak bullion acted as powerful negative forces. Barrick shed C$1.20 at C$28.45 and Placer Dome came off C$1.10 at C$17.50. Franco-Nevada shed 95 cents at C$23.50.

In contrast, banks pushed determinedly higher with Royal Bank of Canada adding C$1.05 at C$77.05 and Toronto-Dominion Bank gaining C$1.95 to C$63.95 in above average volumes.

Industrial stocks showed a broadly mixed trend. Among gainers, Northern Telecom added 40 cents at C$87.85, while Seagram gained C$1.55 at C$75. Alcan Aluminium retreated 75 cents to C$35.90.

Dax on hold for ECB meeting

EUROPE

German equities edged higher but the mood in FRANKFURT was subdued ahead of tomorrow's meeting of the European Central Bank. The Xetra Dax index ended up 6.16 at 4,895.11 after another slow session.

Although the dollar continued to track record highs against the euro, the market remained hesitant as the euro's plight and renewed talk of European interest rates bottoming out kept investors on the sidelines.

BMW stayed firm, rising €1.90 to €747.6 for a three-day gain of 6 per cent amid continued speculation that rival motor groups were keen to link up with the leading German marque.

Utilities RWE and Veba were firm features on a report – subsequently denied – that Orange of the UK was keen to buy into the two groups' telecommunications joint venture in which Vodafone, the UK cellular leader, has a 17.5 per cent stake. RWE added 52 cents at €38.97 and Veba 81 cents at €51.46.

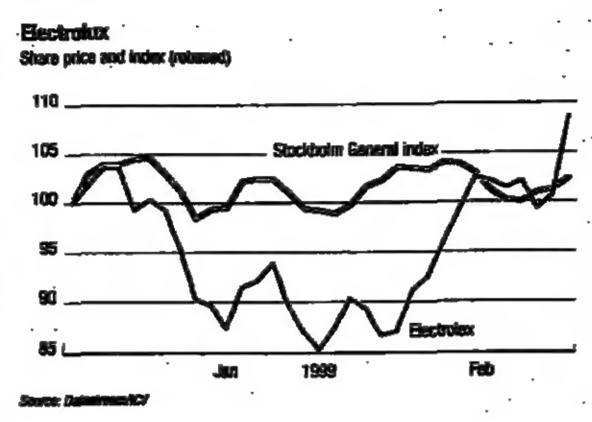
The FTSE Eurotop 300 index rose 8.37 or 0.7 per cent to 1,209.41. See Euro Prices page.

Linde was among the weaker performers, slipping €18.5 to €481.5.

PARIS ended little changed with the CAC-40 down 12.87 to 4,052.32, but a stream of company news helped deliver selective performances.

Eurotunnel gained 20 cents or a steep 17.7 per cent to €1.33 in 81.2m shares traded on reports that French financier Vincent Bolloré was buying shares. Mr Bolloré denied the claim and Ferri-BBL, one of the brokers buying the stocks declined to comment.

Technip, the engineering company, moved €10.20 or 13.6 per cent ahead to €85.50 after posting better 1998 results than expected and forecasting a 50 per cent eps rise over three years.



CCF, the bank seen as a takeover target, climbed for the third day running on continued speculation that Dutch bank ING was considering buying it out. The shares gained €4 to €79.95.

Among the losers, Rhône-Poulenc retreated €1.20 to €41.80 on unconfirmed reports that the Kuwaiti government, one of the main shareholders in Germany's Hoechst, disapproved of its plans to merge with the French chemical company.

Thomson-CSF was also weak, shedding €1.32 to €30.58 on news that state-owned Aerospatiale, which is to merge with Lagardère's Matra unit, would cede its 4 per cent stake in Thomson to the state.

AMSTERDAM ended 0.47 lower at 522.84 on the AEX, with a 2.7 per cent setback at Royal Dutch, off 90 cents at €38.50, accounting for much of the fall.

Ahold shed €1 at €33.55 following a downgrade from outperform to neutral for the retailer at Deutsche Bank. Steel leader Hoogovens came off 80 cents at €28.35.

Baan jumped 50 cents or 6.1 per cent to €8.65 following news of the group's software deal with Delta Airlines of the US.

Hagemyer gained €1.50 at €32.10 ahead of tomorrow's results statement. Media group Elsevier jumped 70 cents or 5.3 per cent to €14 after a broker upgrade.

ZURICH added 26.7 at 7,015.2 on the SMI index. CS Group pushed higher on news of a $850m expansion by acquisition of its US operations. It ended SFr3.75 better at SFr228.75 after a session high of SFr230.

Drugs leaders were mixed. Novartis continued to meet with foreign selling, slipping SFr11 to SFr2,531 while Roche gained SFr355 at SFr18,210. Watchmaker Tag Heuer ran up against a downgrade from Paribas Private Banking, losing SFr1.75 at SFr117.50.

STOCKHOLM ended 0.9 per cent better, with the general index up 28.52 to 3,303.49.

Electrolux, the household appliance maker, climbed SKr12 or 8.5 per cent higher to SKr152 on 1998 results above expectations and rosy 1999 prospects. The group said it would seek a euro listing, making it one of the first Swedish issues listed in the currency.

Astra put on SKr5.50 to SKr161 after posting healthy 1998 results and saying it expected its planned merger with Zeneca of the UK to win approval from European and US competition authorities by April.

Drug maker Oxigene plunged SKr7.50 to SKr63.50 after it said it was discontinuing clinical trials of its anti-cancer drug Neu-Sensamide.

HELSINKI took heart from strength in the telecom sector and a positive first half-session on Wall Street, with the Hex index ending 56.80 ahead at 5,967.23.

Nokia, which said it was taking over US internet company Diamond Lane Communications in a $125m deal, rose €1 to €120.50.

Rival telecoms company Sonera added 59 cents or 8.3 per cent to €15.99

Sporting goods group Amer advanced 60 cents or 8.3 per cent to €11.50 on foreign demand after reporting good 1998 results last week.

ISTANBUL surged after the latest bond auction showed a decline in long-term yields. The IMKB-National 100 index was up 260.36 or 8.4 per cent at 3,355.38.

Written and edited by Jeffrey Brown, Bertrand Benoit, Paul Gregan and Nicola Wilson

Low inflation forecast drives Mexico City up

MEXICO CITY was trading 1.2 per cent higher at mid-session, with the IPC index up 51.08 to 4,154.68, following the upward trend of Wall Street and a rise in the peso.

Mexican central bank governor, Guillermo Ortiz, said inflation in February would stand between 1.45 and 1.5 per cent, below market expectation of 1.8 per cent.

Cement giant Cemex was 0.65 pesos up at 30 pesos after the company reported healthy earnings.

BUENOS AIRES continued to rise, gaining 1.1 per cent as investors took their cue from markets in the region not closed for carnival.

The Merval index was trading 4.15 higher to 394.15.

SANTIAGO gained 0.8 per cent, with the IPSA index up 0.87 to 111.30 as most investors kept to the sidelines for the duration of carnival.

Sasol bounces 6.5 per cent

SOUTH AFRICA

Johannesburg remained soft, as shares moved lower across the board ahead of today's budget. The all share index ended off 4.7 at 5,896.8.

Financials came off 57.8 at 9,029.7 and industrials lost 5.8 at 6,699.8 despite another strong session for Sasol, which bounced 140 cents or 6.5 per cent to R23 on the better showing for international oil prices.

Golds reversed Monday's, gains. The sector declined 1.4 per cent to 892.

Bond bureau bolsters Tokyo

ASIA PACIFIC

Stocks in TOKYO climbed yesterday as the ministry of finance reversed its decision to halt bond purchases, prompting a slide in bond yields and weakening the yen, *writes Alexandra Nusbaum.*

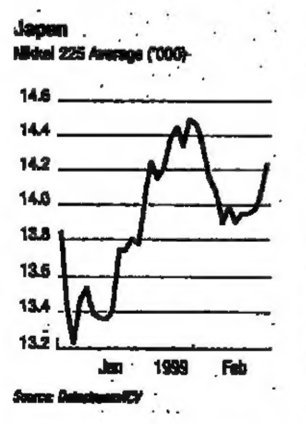
The Nikkei 225 Average rose 1.27 per cent or 177.9 to close at 14,232 after trading between 14,095 and 14,358. The capitalisation-weighted Nikkei 300 rose 1.46 to 219.85.

The Topix index of all first-section shares was up 6.66 at 1,101.68. Volume rose to 389.5m shares. Momentum was up with 748 issues advancing, 369 declining and 167 unchanged.

The yen rose to Y116.8 against the dollar, and the yield on the 10-year government bond fell 15.5 basis points to 1.985 after the ministry of finance said its Trust Fund Bureau would resume buying government bonds.

Finance Minister Kiichi Miyazawa also said the ministry would cut the March issue of 10-year government bonds by Y400bn to Y1,400bn while increasing issues of shorter-term bonds.

All sectors were up except electronics and communications, which fell slightly. For a fourth day, foreign institutional investors pushed up the marine transport sector in advance of freight rate hikes planned for May 1, according to Laurent del Grande, analyst at Dresdner Kleinwort Benson. Kawasaki Kisen rose 11.3 per cent or Y20 to Y177. Mitsui OSK rose Y11 or 5.5 per cent to Y199.



Stocks of tyre companies, which are major exporters, rose on the back of the weaker yen, with the rubber sector up 2.36 per cent. Bridgestone rose 3 per cent or Y75 to Y2,465. Ohtsu Tire was up 4.35 per cent or Y10 to Y230.

The weaker yen failed to damp the oil sector which rose 2.1 per cent. Mitsubishi Oil climbed 2.8 per cent or Y6 to Y213, and Nippon Oil added Y12 to Y417.

In Osaka, the OSE climbed 145 to 14,960.

SYDNEY continued to swing lower as investors continued profit-taking. The All Ordinaries shed 18.4 at 2,859.4 in low turnover of A$990.

BHP fell 15 cents to A$11.80 and Rio Tinto 60 cents to A$20.16. Normandy, which put out 1998 earnings, ended 3 cents off at A$1.39.

Telecommunications giant Telstra lost 19 cents at A$8.20, but OneTel jumped 93 cents to A$12.63 on news that News Corp and Publishing and Broadcasting were to take stakes in the group.

WELLINGTON edged high with the 40 capital index hardening 4.32 at 2,151.5. NZ Telecom ended all-square after a volatile session, driven by third-quarter results and news of senior management changes. The stock touched NZ$9.07 at one stage before closing unchanged at NZ$9. Air New Zealand A shares added 10 cents at NZ$2.75.

BANGKOK closed 1.6 per cent higher as local retail investors and European buyers focused their attention on the banking sector, up 2.6 per cent. The SET index gained 5.40 to 350.36.

Traders said the return of foreign players, who were net buyers for the last two days, underlined the improvement in sentiment after a law setting up a bankruptcy court was enacted on Friday.

Another 11 measures aimed at reviving the Thai economy will follow.

Krung Thai Bank, the most active stock, gained Bt0.50 to Bt16, while Bank of Ayudhya rose Bt0.50 to Bt11.50 and Siam Commercial Bank Bt1.50 to Bt16.25.

MANILA ended marginally higher in slim volumes, with the value of shares traded down to 333m pesos from 740m pesos on Monday and the composite index up 8.57 to 1918.87.

Attention concentrated on telecom stocks. Dominant provider Philippine Long Distance Telephone gained 5 pesos to 895 pesos.

Battered cellular phone provider Philipino Telephone added 0.04 pesos to 2.06 pesos. The debt-ridden company is to submit a plan by February 19 outlining the way it intends to restructure its 39.4bn pesos debt.

JAKARTA made a modest advance as investors kept to the sidelines while most Asian markets were closed for the lunar new year holiday.

Positions concentrated on blue chips, with traders expecting bargain-picking to step up today.

The composite index was up 1.92 to 398.84. Heavyweight Telkom moved Rp25 to Rp2,900, while Indosat gained Rp100 to Rp11,700 and Indah Kiat rose Rp50 to Rp2,060.